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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

FRIDAY, FEBRUARY 21, 1986

Morning Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Hennessy, M. (Fort William PC)
Knight, D. S. (Halton-Burlington L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitution:
Stevenson, K. R. (Durham-York PC) for Mr. Barlow

Clerk: Arnott, D.

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LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Friday, February 21, 1986

The committee met at 10:13 a.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: Perhaps we can get started and deal with a few preliminary matters. Our committee last met in the fall and at that time we had three outstanding reports that were being prepared by consultants as a result of our early determination in our hearings last summer that not enough was being done to determine the effects, one way or the other, of an agreement with the United States.

Two of these reports, the report of ARA Consultants and the report from Professor R. G. Harris, Queen's University, are being released and I think members of the media now are able to receive them. They are over by the coffee table. With regard to the report of ARA Consultants, Arthur Donner will be here at two o'clock and at that time the members of the committee will be questioning him on the results of that report. Professor Harris is not available this week and we will be questioning him with regard to the results of his report at a future time.

Today we have with us Professor Fred Lazar of York University. His report is not yet complete, but he will be reporting to us orally with the assistance of some notes and tables.

I should also say that there will be a subcommittee meeting this afternoon at 1:30 p.m. to discuss further scheduling. Members of each party will be present at that meeting. The present schedule of the standing committees is such that their work through the course of the rest of February and March deals with actual bills from the Legislature. Our committee will be prepared to meet again during April.

In accordance with earlier discussions of the committee, we have sent out dozens of invitations--I do not know exactly how many--to various groups and individuals in the province. At the moment 13 witnesses are prepared to appear before the committee, with another six or so having indicated they might give a positive response in the future. That means we have approximately two weeks' work to do in April.

In view of the heavy legislative schedule we have set for ourselves in this Legislature, carrying on into April, May and June, in view of the tradition of select committees not sitting during the course of the Legislature, and in view of the fact this debate is going to carry on certainly for the rest of this year in these two countries, Canada and the United States, it is the position of the government party that we will not oppose an

extension of time, so that if necessary the final report which would normally be due within 12 months of the striking of the committee in July 1985--that is my understanding of the terms of reference--may not be prepared until some time thereafter.

Mr. Mackenzie: To add to that, I think we reached agreement yesterday that in the brief period of time we have in April, we will try to get Mr. Baranson up here from one of the American universities, mainly because he deals largely with the effect on branch plants and his arguments seem to run counter to some of the arguments in the Donner paper. I do not know whether you had that in your notes.

Mr. Chairman: No, I did not. Unfortunately, Mr. Mackenzie, I was snowbound in the north yesterday, as you know, and I apologize. I appreciated Mr. Knight taking over as chairman. Who did we agree to bring?

Mr. Mackenzie: Jack Baranson. I think we agreed on that. It would be essential to get him up here during the course of the seven or eight days we have hearings.

Mr. Chairman: All right. We will look into it.

Mr. McFadden: I want to comment vis-à-vis the mandate and scheduling of the committee. I note that you are suggesting this morning for the first time that the mandate of this committee might be extended past its one-year calendar deadline, which would expire about July 10, 1986. This matter was not discussed before and I have some real questions about the advisabily of extending the mandate past the point of July 1 in view of the way in which the issue is developing in the province.

The chairman is well aware of my concern. I should say to committee members that the chairman himself lobbied to have additional time for hearings during the adjournment. Our difficulty now is that under the mandate we received from the Legislature, we were to provide an interim report within three months, which was done. That interim report was based on some 10 weeks of discussions and hearings, not only here but outside Toronto and even in Washington.

During that period we had some excellent meetings, first-class reports were filed, the witnesses were good and I also thought there was a tremendous feeling in the committee in regard to working together to try to develop ideas and policy options that the government and the Legislature might be able to consider. The interim report reflected the work and the co-operative attitude of the committee and the very serious approaches being taken by everyone concerned.

The interim report set out nine areas that required study. The problem we have is that those nine areas of study would in reality need something comparable to the amount of time we spent during July, August and September, which obviously is not possible. By tightening time and so on, we might have managed to achieve the bulk of it and perhaps could have gone back to the Legislature with a request to extend some areas. At least we could

have given the Legislature some form of final report by July, even if there were other matters to be looked at.

10:20 a.m.

The problem we now have is that with the two weeks that are available to us, we cannot approach dealing with even a part of the nine areas. The suggestion has been made that other committees are meeting. The concern I have and the point our caucus wants to raise is that in the main those are standing committees that can meet while the House is in session. This committee is not able to meet while the House is in session.

I point out that the standing committees on general government and social development are meeting for five weeks, the standing committees on resources development and public accounts and the select committee on energy are meeting for four weeks, and the standing committees on procedural affairs and agencies, boards and commissions, and the Ombudsman for three weeks.

This committee has essentially been given the least amount of time of all the committees, even though it cannot really meet while the House is in session. Our concern is that this debate is heating up. We have got to the point now where the province is actively involved in working with the federal government in defining terms of reference for the negotiator and the involvement of the province.

Between now and the end of June when negotiations get going, the province presumably is going to have to define its negotiating position. It seems to me it would be of real value to the government as well as to the people of Ontario if in this period, which is really the most critical period, this committee could meet and provide the province with a report with recommendations, perhaps even before the July 1 deadline. Because of the scheduling we cannot, as a committee, realistically deal even with the nine areas we think are important, let alone any others.

I am speaking on behalf of our caucus. We are very concerned about this. We feel the public of the province and the groups or individuals who had time to appear were very impressed by this committee and the work it has done. There was a generally good reception given to the report.

By the scheduling that has been given, giving our committee the least amount of time of virtually any committee meeting, we effectively have to go back to the Legislature and say that we cannot meet our mandate. That is what you are suggesting. I am not objecting to our going back to request an extension. All I am saying is we could have reached our mandate, either fully or in substantial part, if we had had more rather than less than two weeks of hearings. Now we are stuck in a position where we cannot do it and that is a major question.

It is embarrassing to this committee, and also to the Legislature, that we have not been able to meet our mandate. Consequently, all I am doing is putting on record at this time, first, our objection to the lack of hearings during the

adjournment, and second, our position that we could have reached the mandate if we had had the commitment to do that from the government.

Mr. Chairman, I am not in any way criticizing you. You have worked very hard and been an excellent chairman. I am not in any way criticizing other members of this committee either because I feel everybody here is working hard on this issue. I am simply stating that I am very concerned about the way this was dealt with and the fact that because of scheduling reasons of other committees which, as I have mentioned, I do not feel are entirely valid, we are not going to be able to meet our mandate to the Legislature or to the people of the province.

Mr. Chairman: I take it, Mr. McFadden, that you lobbied your own whip and House leader effectively but unsuccessfully to attempt to obtain more time.

Mr. McFadden: Originally, there was effectively one week of hearings in the schedule, because we all knew this week was not an effective hearing week. You will recall there was this week and one week before the House was to come back in the original schedule. We knew this week was not very feasible because we did not know for sure when the first hearing week was going to take place. No witnesses were arranged for and we did not have our research reports available for this week, so we knew this first week was not a viable hearing week.

The original schedule allowed for one week. Because of objections that we raised through our whip and House leader, an additional week was added. That gave two weeks right at the very end before the House came back. I have the original schedule and it was clear that originally we were going to have only one week of hearings in April and a second week was added.

Mr. Chairman: Your recollection is a little different from mine in that regard. When I was handed the first week, I was told that there was some bargaining going on and I was assured that there was going to be a second week. We were quite aware there was going to be a second week available, even when the one week was being prepared. In so far as our caucus was concerned, we were always banking on two weeks.

Mr. Knight: I apologize to Professor Lazar on behalf of the committee. Sometimes committees have procedural wrangling or posturing before they get to their business.

Mr. Ferraro: Why do we not let him speak first and then deal with this?

Mr. Chairman: That is what I wanted to do; put off discussion until after.

Mr. Knight: The matter has been brought to the committee and I am glad it was because I was disturbed by the reports in the media that I saw yesterday morning and I wanted the opportunity to speak. I am glad this was brought up by Mr. McFadden, because they

were his comments and he can correct me as to whether they were directly attributable to him.

The suggestion that this committee has been muzzled in any way, shape or form or that there is the possibility of it being muzzled brings into question the traditional role of committees with respect to our terms of reference and direction from the Legislature. I do not think there is any committee that would even suggest it could be muzzled or that indeed it could be muzzled. This committee has not been.

We have had fair and open discussion throughout our hearings. Our interim report was done in a manner in which there was full discussion and I thought there was, save and except for dissension from the New Democratic Party, some consensus from the Conservative and Liberal members. It might have been dominated by the Liberal Party, but we do not have a majority on the committee, so the inference that the thrust of the recommendations are a result of a Liberal majority is not true.

I would like to ask Mr. McFadden whether there now is a change of heart as far as the position of the Conservative Party is concerned with respect to the recommendations that were a consensus. It is my feeling that the recommendations do not in any way depart from the public pronouncments I have heard in the Legislature or in the media as far as the Premier (Mr. Peterson) is concerned.

I draw Mr. McFadden's attention to our general recommendation that comprehensive free trade is neither attainable nor desirable. We then went on to suggest that if there were discussions, the province should be part and party of all those discussions.

I will just mention one other thing, that there should be an awful lot more discussion and research prior to our becoming involved in negotiations, in that the auto pact and agriculture should not be on the table. Those are things I have heard the Premier suggesting all the way along the line.

As far as our scheduling is concerned, we know that the scheduling is done by the House leaders together. I can assure Mr. McFadden that there are two other committees, one of which I am chairman, that are not having any hearings during this recess. There are other--

Mr. Chairman: That have not had any yet at all.

Mr. Knight: They have not had any yet at all. I would like to think that committee is as important as this committee.

Mr. Chairman: I am going to let Mr. Mackenzie have one minute and then I am going to cut off discussion and ask the committee to agree to sit until 12:30 p.m. so that we still have two hours worth--

Mr. Knight: I leave it to Mr. McFadden to set the record

straight on what I read in the newspaper as far as the neutrality and emphasis of this committee is concerned.

Mr. Chairman: Perhaps that can be done this afternoon. We can continue this discussion at that time. Mr. Mackenzie?

Mr. Mackenzie: I will pass at this moment.

Mr. Chairman: Can we cut off this debate? It is obviously an ongoing debate that does not have to do with the reason we are here.

Mr. Chairman: We all have Professor Lazar's notes. Perhaps you can lead us through these notes.

10:30 a.m.

PROFESSOR FRED LAZAR

Dr. Lazar: Thank you very much for having me back to speak to the committee. If you do not mind, I will go ahead and read this short summary of the results of my study.

My study had two basic objectives: (1) to examine and assess the nature of the adjustments by 10 selected Ontario manufacturing industries to the Kennedy round of tariff cuts; and (2) to estimate the potential employment impacts on these same 10 industries of some form of free trade arrangement with the United States.

The 10 industries that were selected employed 77 per cent of the nearly 900,000 workers in the manufacturing sector in Ontario in mid-1985, so they are the dominant manufacturing sectors.

In order to pursue these two objectives, the study consisted of three phases: (1) a statistical review and evaluation of published and unpublished data; (2) personal interviews wth senior management of major US companies with Ontario-based subsidiaries; and (3) a questionnaire survey of a random sample of 380 companies with production facilities in Ontario.

Interviews were held with 22 of the 40 companies that I contacted, and useful survey responses were received from 102 of the 380 companies to which questionnaires were sent.

My comments will focus on the interview and survey results, since they break new ground and hence are likely to be of greatest interest. What I am not discussing today are the results based on the historical review of the available data.

The interviews concentrated on the nature of the planning process within these major US corporations, the role of the Ontario-based subsidiary in this process and the potential impacts of a free trade arrangement. The interviews yielded three important lessons, and these lessons were repeated over and over again in each of the interviews.

1. The potential effects of a free trade arrangement have not yet been incorporated into the planning process of these companies. Even though the planning exercise looks forward three to five years, a free trade arrangement has not been factored into the analysis for several reasons. No agreement is likely to be in place for at least two to three years, and with a phasing-in period, the free trade arrangement will not be a significant factor within the present planning cycle. In other words, these companies do not anticipate that the effects of a free trade arrangement will be important for at least five or six years down the road. Moreover, uncertainty over the contents of the agreement prevents any meaningful analysis at this time of its implications for a company's planning process.

2. This is a key lesson to keep in mind. The internationalization of production increasingly has become a more common and important phenomenon. This trend will have much more significant effects on investment and production decisions affecting North American operations than a free trade agreement. In the light of the present trend, more production will be shifted offshore out of North America. Together with the need to adopt the latest production technologies to keep North American plants competitive, these trends suggest that employment in manufacturing in North America will be hard pressed to remain at current levels.

3. This is also quite important. Most companies have or are in the process of moving to bottom-up planning, i.e., business plans originate with the major oerating and/or geographic divisions. Hence, the role of the Ontario subsidiary in the overall corporate structure determines its input into the planning process. If the Ontario subsidiary is part of an operating division, it will have little input into the planning process. In this case, a free trade agreement may lead to a US-based executive of the operating division to which the Ontario subsidiary reports, to recommend supplying some or all of the Canadian market from US plants because of the elimination of the tariff.

If, however, the Ontario subsidiary is a separate division reporting directly to US headquarters, it will have much input into the planning process. In this case, in the light of the current exchange rate, the Canadian-based executive may recommend to expand the Canadian operations, to supply parts of the US or other international markets.

Turning to the letter survey, I received 102 useful responses out of an original sample of 380 companies. In 1985, these 102 respondents employed just over 81,000 people in their Ontario operations only. This represents 12 per cent of the total number of employees in the 10 industries surveyed and nine per cent of total manufacturing employment in mid-1985.

I will concentrate on three principal findings from the survey.

1. Using the information from the answers to questions 5, 15, 16 and 17 on the questionnaire and several different techniques, I estimated that with a free trade agreement in place--the contents of the agreement were left to the imagination

of the respondents--and with the Canadian dollar trading around the 71 cent to 72 cent US range, employment in 1995 would be between two per cent lower and 10 per cent higher than current employment levels. Extrapolating these results to the 10 sectors, I derived net employment changes ranging from a loss of 14,000 jobs to a gain of 69,000 jobs.

For the Canadian companies only in the survey, the employment changes varied between minus four per cent and plus five per cent.

It is important to emphasize that the positive employment changes were entirely the result of anticipated employment growth over this period, without any free trade agreement in place. The pure effects of a free trade agreement on employment were all found to be negative, ranging from minus three per cent to minus 10 per cent for all companies in the sample, and minus two per cent to minus seven per cent for Canadian companies only in the sample.

However, a stable, strongly growing economy and some modest devaluation in the range of three to five per cent would be sufficient to swamp the negative employment effects of a free trade agreement.

The worst employment scenario derived from the results involved sluggish economic growth, increased government intervention in the economy, a 10 to 15 per cent appreciation of the Canadian dollar, a short transition period in the free trade agreement and many more concessions by Canada than the US during the negotiations.

With this combination of events, the net employment losses approach--in fact, the results suggest they would exceed--10 per cent or 69,000 jobs. We have rather substantial job losses in manufacturing in this scenario.

2. In responding to questions 16 and 17, regarding key concessions in the free trade agreement, the companies repeatedly brought to the fore four issues:

(1) That there be a long phase-in/transition period. In general, they were looking at five to 10 years;

(2) That there be no change in the auto pact. This was emphasized by companies and industries directly in the transportation equipment sector and those in other sectors whose fortunes were derived by the growth and prosperity of the auto industry;

(3) That the buy America statutes be eliminated;

(4) That auto-pact type safeguards--that is, employment, production and trade balance safeguards--be considered for other manufacturing sectors. This is quite surprising.

3. Although only one third of the foreign-controlled companies responded answered question 13, avoiding tariffs stood

out as the second most important factor in a list of 14 in influencing the parent company's decision to establish production facilities in Ontario. Combining this observation with the interview comments on the role of the Ontario subsidiary in the planning process lends credence to the argument recently expounded by Jack Baranson in his study for the Ministry of Industry and Trade that a free trade arrangement might result in some repatriation of production and employment back to the US by US multinationals operating in Ontario. However, I caution the committee not to rush to any conclusion on this point. The evidence is supportive of this argument, but it is far from conclusive.

My work leads me to the following conclusions:

1. There does not appear to be any net job creation impact of a free trade arrangement.

10:40 a.m.

2. A strong vibrant economy can more than compensate for any potential net decline in the number of jobs resulting from a free trade arrangement.

3. As long as Canadian negotiators do not give away the country in order to reach an accord and there is an acceptable phase-in period--I suggest five years--the real danger of the free trade discussions is in the diversion of our attention from the threats and opportunities associated with the increased internationalization of production and the policy environment required to generate strong and stable economic growth.

Free trade, in whatever form, will not be the panacea for our economic ills. The more attention we focus on the source of these ills and the less we pay to the free trade discussion, the better off we will be.

Mr. Chairman: That gives us some interesting food for thought.

Mr. Cordiano: I have one question on your definition of a free trade agreement with regard to the study you conducted. How did you expand on that in the survey?

Dr. Lazar: I sent a covering letter basically asking that when the people were considering the possible contents of a free trade arrangement, they consider the complete phase-out of tariffs and certain nontariff barriers, most likely in the area of government incentives, without being any more specific.

Mr. Cordiano: But you did not factor in those points when, with the model you used, you were trying to figure out how to come to a quantum, viable conclusion. It is next to impossible to do that, though.

Dr. Lazar: On the basis of the responses I got, there seemed to be some sort of consensus that a free trade arrangement would include the bilateral elimination of tariffs and a few

government tax incentives and some changes in preferential procurement laws. It seemed to be agreed upon by most of the respondents that they would be included in a free trade arrangement and that our transition period would be in the order of five to 10 years.

Mr. Cordiano: From your questionnaire and survey, were there any benefits to be gained by any of these companies with regard to the elimination of nontariff barriers south of the border? What impact might that have had on these firms operating in Ontario?

Dr. Lazar: I also have in some of the tables the worst-case scenario and the best-case scenario. Essentially, the best-case scenario allows for more concessions by the United States than by Canada. In particular, one of the concessions would be the complete elimination of buy America statutes at both the federal and state levels. That tends to generate net employment increases from a free trade arrangement alone.

Mr. Cordiano: These firms in Ontario would not be willing to give up that protective barrier behind the tariff. Were the firms you talked about in your study behind a protective tariff barrier?

Dr. Lazar: Most were. In some industries there were no tariffs and no nontariff barriers of consequence in place. The point I was making is that they were responding to what concessions from the United States would be most advantageous. The buy America statute was mentioned quite frequently.

With respect to your question, if the tariff is eliminated with a short transition period, the employment effects will tend to be more detrimental than those I have mentioned in my summary. I have the possibilities in the worst-case scenario. However, if you allow for tariff reductions on both sides, then the results I have reported are the ones that seem to be most relevant.

Mr. Cordiano: We have been told by various sources that 80 per cent of the trade between our two countries is now nontariff or with a tariff of below five per cent. I do not have the exact figure, but it is a very low tariff. There is one in place and in many areas across the economy there is no tariff.

What are we talking about here? Is it the remaining 20 per cent or is it right across the board? You are saying that one of the biggest factors in this argument is that these companies feel that they have some protection from the tariff and if you remove the tariff, then it is going to have a negative impact.

Dr. Lazar: That is in relation to the US companies. The question there was, why did they establish manufacturing facilities in Ontario? These facilities may have been established anywhere from five to 40 or 50 years ago. The tariffs that were in place at the time the decisions were made were influenced by two or three key factors.

These companies are now saying that if you eliminate these

tariffs entirely and if the Ontario subsidiary is part of an operating division, you may then get the American-based executives in that operating division suggesting: "Since we no longer have this tariff, even though it might now be at a level of four or five or even eight or nine per cent, we no longer need the Canadian operations. If we have excess capacity in the US plants, let us start meeting the Canadian demands from these US plants and slowly phase out our Ontario operations."

Mr. Cordiano: I have one more question. As we understand it, when the next round of GATT goes forward and is completed, we are going to have an even further reduction in tariffs. The trend is to eliminate tariffs altogether or reduce them from what they are at now. If what you are saying is correct, that gives me a great deal of cause for concern. It is saying that without a tariff, then these firms are going to be moving out of this country and back to the parent plant or whatever.

Dr. Lazar: The far greater threat is not the elimination of tariffs, but that most major companies--Canadian, United States, European and Japanese--are moving towards an internationalized system of production where they have subsidiaries throughout the world producing components and assembling parts. Even if there are no further tariff changes, you are going to see more production being shifted offshore from Canada, the United States and Europe to many of these low-wage countries.

Mr. Cordiano: The tariff is not the only major stumbling block.

Dr. Lazar: No. If you get rid of the tariff tomorrow, you are not going to see any dramatic shift of production to US plants over the next two or three years. You will see some gradual shifting back, but the greatest threat to Canadian or Ontarian manufacturing is this ongoing trend towards internationalization of production.

Mr. D. W. Smith: On page 4 of your presentation, you referred to auto-pact type safeguards being considered in other sectors. What are some of those other sectors that you were thinking of when you put that in there?

Dr. Lazar: I was not thinking of any. That conclusion comes from the survey. All I can do is refer you to a table at the end that says, Major Concessions by the United States. If you look through that table, you will see at periodic spots the reference to certain types of employment or production safeguards. Then in brackets, the first letter represents whether it is either a Canadian-controlled or a foreign-controlled company that made the recommendation and the next set of numbers indicates the industry or the standard industrial classification for the industry.

If you compare that SIC to my references on page 1, you can see which companies and other industries made references to auto-pact type safeguards. Altogether, about four or five of the 10 sectors made reference to auto-pact type safeguards.

10:50 a.m.

Mr. D. W. Smith: When you say there will be more offshore manufacturing companies, in the long term what do you see that doing to our wage package here? Do you see the jobs going out entirely? For example, take Hyundai over in Korea. I am not certain whether the big auto makers are behind that company; they could be. In reality, are they taking jobs away from our people? Would it help in any way to drop the wage package in our country to be more competitive? Do you ever see this happening to get into this market again?

Dr. Lazar: You are talking about some rather dramatic wage adjustments that would be necessary to maintain certain types of jobs. The approach you have to take is to accept that certain types of manufacturing activities will be shifted offshore, those that can be standardized or involve repetitive tasks that can be done by unskilled or semi-skilled workers. There is little we can or should do about them.

This means that if we are going to benefit somehow from this whole process rather than sitting back, throwing up our hands and saying: "Is this not terrible? We are going to lose jobs," we have to look for other types of manufacturing activities as substitutes. They should be high value-added, high productivity activities that can support current wage levels and further increases in present wage levels. We have to look for high value-added market niches.

Mr. D. W. Smith: I do not want to be dramatic. Are you saying that some of these employers, and I will use the auto industry, should be looking for other work a few years down the road if these offshore car plants take over as they appear to be taking over?

Dr. Lazar: The auto industry could look for new markets in that sector or in other industries closely related to the auto industry.

Mr. Mackenzie: Dr. Lazar, the value I see in your brief summary today is that you have actually gone out and talked to people rather than using the series of numbers in the Harris studies. Have you any comments as to why the planning processes of companies have not yet taken a serious look at the possibilities of a free trade agreement with the United States? Why is the forward planning not being done?

Dr. Lazar: As I pointed out in my summary, there are two basic reasons. First, of the people I talked to, none really saw a free trade arrangement producing any significant results in terms of tariff cuts or nontariff changes for at least four to six years down the road. Therefore, why worry about these changes at the present time when you are only planning three to five years down the road?

Second, aside from the possibility that tariffs might be eliminated altogether, they could not foresee what the other changes might be. There is too much uncertainty.

Therefore, their responses were that as negotiations are

under way, they will monitor the negotiations and get a better feel for what might happen. Then it might be factored into the planning process.

Mr. Mackenzie: I think your report is devastating in terms of the arguments counter to the arguments for free trade. Am I right in reading into it that without the planning of an industrial strategy that was never done in this country, we do not have a hell of a lot of future?

Dr. Lazar: That is my particular bias. In approaching the study, I tried to be as objective as possible. I think the people I talked to--if you look at the questionnaire--will support my contention that I was objective. Nevertheless, the results that are derived suggest to me that we can argue endlessly about the theoretical effects of a free trade agreement.

I am saying there are much greater threats to our economy than a free trade agreement. Even if we introduced a comprehensive free trade agreement tomorrow with no transition period, you would not see any drastic changes in our economy over the next two or three years. Five or 10 years down the road, you might see some net job loss or some restructuring. The greater threats are the continued internationalization of production, certain other structural imbalances in our economy and the lack of strong and stable economic growth.

Mr. Mackenzie: Can I take it from those remarks that you have a little more feeling for efforts to improve and involve us more in multilateral trade talks, with possibly a little more emphasis on the General Agreement on Tariffs and Trade, than for straight bilateral trade talks?

Dr. Lazar: I do not think it is going to make a difference one way or the other. The only advantage I see to multilateral trade negotiations is that they provide a form of employment for people at the Department of External Affairs for a period of eight to 10 years. The travel is nice and the working conditions are pleasant.

However, in practical terms, as to going the bilateral route or the multilateral route, the net effects on Ontario and Canada will not be all that different. If we are concentrating on some type of trade arrangement and we see that as the cure-all for economic ills, we are going to be in a lot of trouble regardless of which approach we take.

Mr. Mackenzie: You argue that there is a negative effect to a free trade agreement, and that any growth there is will be the growth we can normally expect over the next 10 years in the facilities we have. Is it valid to argue that if there is a negative growth factor in a free trade agreement, it may be a little more dangerous than you have indicated? I am not sure what we will have left if we have not done the advance planning when companies are finally in a position where we have no restrictions at the border at all.

Dr. Lazar: If we do nothing other than get a free trade

agreement, yes, we will have fewer jobs in manufacturing than otherwise would be the case 10 years down the road. However, if we say, "Let us not enter into any free trade agreements," we may have a few more jobs in manufacturing but in my opinion our economy will still be in serious difficulty.

A free trade agreement might compound this, but I do not see the marginal effects as being that dramatic. They argue that a 30,000, 40,000 or 50,000 job loss is quite dramatic. Compared to other possibilities and other factors that affect our economy--look at what happened in the 1981-82 recession. We lost a much larger number of jobs in manufacturing in that period, jobs that will never be replaced. We lost more jobs then than we might lose as the result of a free trade agreement.

Mr. Mackenzie: In section 2 of your notes you indicate companies. Are we talking basically about Canadian companies or are branch plants included as well? Are these things they want to see raised as issues in the course of free trade negotiations?

First, there should be a longer transition period, which obviously plays to the concerns about the effects of a free trade agreement. Second, there should be no change in the auto pact, which is the one success story in terms of jobs and value-added manufacturing in this country. Third, the buy America statutes should be eliminated, whatever benefit that is to us; I presume we are going to have to have on the table as well the many local product-mandating arrangements we have in this country. Fourth, auto-pact-type safeguards should be considered for other sectors.

Are these at all reasonable? I cannot conceive of sitting down to serious bilateral free trade negotiations when these are almost like us asking in advance for concessions. Every darn one is a major concession.

Part of the unreality of this, and to some extent even of this committee's recommendations, is that we were told clearly in Washington that everything had to be on the table. These exemptions might be negotiated away, but every time you do that you are giving up something. How can we lay out in advance all the things that would be safeguards for us, yet still enter into serious free trade negotiations?

11 a.m.

Dr. Lazar: Let me answer your question in two parts.

First, points 1, 2 and 3 were mentioned by both Canadian and foreign companies operating in Ontario. The elimination of the buy America statutes was mentioned only by Canadian companies. In terms of how practical they are, a phase-in period of five to 10 years is not unreasonable to expect. I do not believe that either the Canadian or the United States negotiators are looking at an immediate implementation of whatever agreement is reached.

Mr. Mackenzie: Before you leave that, does that not also

imply clearly that, without a five- to 10-year period, we potentially have some serious short-term adjustments?

Dr. Lazar: If you look strictly at the survey results, that seems to be the implication. Judging by the interview results and by other discussions I had with people in the United States, my feeling is that whether you have a zero transition period or a five- or 10-year transition period, in the light of the planning process, you will not see any significant changes occur in investment and production decisions for at least three or four years. The transition period is something companies have got used to from past mutilateral trade negotiations. I question how important it really is.

As for the other three, I am saying that in developing the negotiating position, it is important to have certain factors or demands that have a greater priority than others. These seem to be the ones that are emphasized by the companies that responded to the survey. I suspect that if all companies had responded, I would have got the same type of indication.

Obviously, if you then go to the table and say, "We are not willing to make a change in the auto pact," the Americans will say, "That means that we will take something off the table on our side, some concession that we no longer think is reasonable, or what will you substitute in its place?" It is the same with the other ones.

If we have a long list of what is negotiable and we say, "We do not want to include these or we want exemptions, but in return we are willing to substitute these other factors," which we consider to be less important, we have to prioritize the different variables and the different nontariff barriers that we have in place to decide what tradeoffs we are willing to make.

Just to run into the negotiations and say, "Everything is on the table"--there is going to be give and take throughout the negotiations. Unless we have a prioritized list, the type of concessions we make may prove to be detrimental in the longer term.

Mr. Mackenzie: In point 3, you indicate that avoiding tariffs stood out as the second most important reason for the location of branch plants here in any event. To me, no tariffs at all would add to the concern. I know that it is not tariffs basically, that it is the nontariff barriers that are a problem, but no tariffs at all adds to the concerns a number of people have raised about the validity of branch plant operations remaining in Ontario.

Dr. Lazar: The key to what the effects will be of eliminating the tariffs is, "Where does the Ontario or Canadian subsidiary fit into the overall corporate structure of the multinational enterprise?"

Mr. Mackenzie: We are moving more and more to multinational and offshore companies.

Dr. Lazar: If we can somehow work on US companies to

treat Canadian subsidiaries as a separate operating entity, we will be much better off in the shorter and longer term. How one does that, I really do not know. That is outside the whole free trade negotiations. It is an entirely separate issue.

Mr. Mackenzie: Part of the leverage we might have had under the Foreign Investment Review Agency we have pretty well got rid of at the moment.

Dr. Lazar: Yes.

Mr. Mackenzie: The final point I want to make is that you indicate in your conclusions that a strong and vibrant economy can more than compensate for any potential net decline in the number of jobs resulting from a FTA," or free trade agreement.

I do not know whether this is your area, because you do not seem to have entered into it much in your comments, but you do not deal with the other threat that to some people is even more real than the economic threat; that is, what does it do to our sovereignty? Is that something you have looked at in your questions?

Dr. Lazar: That was entirely outside the terms of reference of this study. I wrote a piece several years back on the feasibility of sovereignty-association for Quebec where I treated the issue of stability of free trade associations and what the implications are for independence and sovereignty. I can forward a copy for the committee.

Mr. Mackenzie: I recognize that was not part of what you were specifically looking at, but it totally leaves unanswered the question of where we go in terms of sovereignty. That is the reason I was curious.

Mr. Andrewes: Professor Lazar, regarding the whole question of nontariff barriers and the buy America question, you suggest on page 4 that in responding to your questions, "companies brought four issues repeatedly to the fore," the third one being that buy America statutes should be eliminated. Is that any more realistic than eliminating the buy Canadian thrust?

Dr. Lazar: Obviously not. I think the Americans would want a comparable concession here. However, in terms of major concessions by Canada that might be detrimental to Ontario-based manufacturing facilities, giving up preferential procurement was cited a few times, but not a great number of times.

My reading of the survey results suggests that Ontario-based companies in manufacturing would not be opposed to a one-for-one tradeoff, eliminating our preferential procurement if the United States eliminates its preferential procurement, and if it is done at both the national and subnational levels. In fact, this might be, on average, beneficial to Ontario-based manufacturing firms. That is my reading of the survey results.

Mr. Andrewes: It almost flies in the face of what appears to be certain parochial policies of various provinces

about provincial buying patterns, stressing the need to buy within the province, particularly by governments. We do not seem to have been able to resolve that. I wonder how successful we might be in resolving the buy America-buy Canadian policies.

Dr. Lazar: Probably the best you can expect in any negotiation is that changes in preferential procurement laws occur only at the federal levels. The subnational governments are highly unlikely to agree to changes in their legislation. That is the realistic view.

Mr. Andrewes: Are you saying that the provincial governments might not agree to setting aside buy Canadian rules or are you saying that provincial governments might carry that a step further and reinforce not only buy Canadian rules but also buy Ontario rules.

Dr. Lazar: Some of that occurs across Canada. You also have some of that occurring all across the United States. My feeling is that the provincial governments are not going to be willing to give up that power unless they are convinced that all the US state governments and the other provinces will do so. If you can convince the provinces of that, that is a great trick. I do not have much confidence in that occurring. It is even more difficult on the US side of the border.

Mr. Chairman: Convincing Texas.

11:10 a.m.

Mr. Andrewes: I believe Mr. Smith raised a point about the auto pact. Are there other sectors of the economy that are as internationally interwoven as the automobile industry?

Dr. Lazar: Let me look through the list I have here and see which ones might be. Interestingly, some of the food industry would be, the rubber and plastic industry and some of the machinery and electrical products industries. So the 10 would exclude transportation equipment. You have at least another four that I can think of offhand where we have a high degree of integration or the possibility of a high degree of integration. Within each of these there are specific product lines one could look at.

Mr. Andrewes: At the outset in your outline you suggested some hypotheses and some questions. It was a bit hypothetical because no one knows the territory we are entering into; nobody is sure of the guidelines. How much consistency is there in the responses if everybody is setting out his own ground rules for his response?

Dr. Lazar: The consistency is there in three ways. First, regarding their views about what might be included in a free trade agreement, there was quite an overlap.

Second, the responses by and large were quite similar. We did not get responses that yes, if we have unilateral concessions by Canada, we are going to get a dramatic increase in employment, so the responses fit in with your a priori expectations.

Third, on the part of the report that I did not deal with, which was looking at what the experience was on the basis of available statistics in response to the Kennedy round of tariff cuts, my findings suggested that there were no net employment gains in Ontario manufacturing because of those tariff cuts. That was the nature of the adjustment, and that seems to be consistent with the survey results I am getting here.

Obviously, my findings depend on how useful and how accurate the responses are by the companies that return the surveys. I cannot say that this is a problem with all surveys. If I were to do this again, it would be nice to follow up with these companies and try to make sure they did not misinterpret questions and that they knew exactly what they were responding to.

Mr. McFadden: I want to compliment you on point 3 in your conclusions. I tend to feel that it really hits the nail on the head. It has been a concern of mine since this whole thing got started that this is diverting our attention from the broader trade issues and the competitive atmosphere we are facing worldwide. The adjustments we are going to have to go through are not really being generated from the United States per se. They are going to come from world patterns developing in the Pacific Rim countries and so on.

I thought your point here was well taken, because it is something we should really zero in on. We should look on any trade discussion with the United States as only part of a very large picture. The unfortunate thing right now is that we are preoccupied with it as the only trade matter we have to deal with and that is the major economic concern. Your paper is very valid and very valuable in pointing out to us that there are some very broad issues that have to be dealt with separately from that.

With regard to the GATT round, if I may just deal with that point at the outset, is it your view that we should not start free trade discussions with the United States at this time and should wait around for GATT, or do you feel it would be valid to go ahead on both tracks and see what we can get? Given the current environment, what is your feeling regarding a strategy for the Canadian government?

Dr. Lazar: I can answer that quite straightforwardly. I see no reason why you cannot proceed with free trade discussions with the United States. The two options are not mutually exclusive. My only concern with free trade negotiations stems from the high profile they have been given by the federal government. They have been made one of the two major elements in economic policy, the other being reducing the deficit. Consequently, pressures may be placed on Canadian negotiators to make unnecessary concessions to reach an agreement prior to the next election, whereas from the US point of view, getting or not getting an agreement is not that important a political issue.

That is my principal concern about the free trade negotiations. We have given it too high a profile, and therefore this may lead to excessive concessions that may be detrimental, more detrimental than my results suggest. Therefore, we should be wary of the negotiations.

However, if that factor can somehow be resolved and if we are able to work out a list of priorities for which concessions we are willing to make and which we are not willing to make, then let the negotiations occur. Whatever agreement results is fine. Its effects on the economy in terms of employment may not be beneficial, on average, but nevertheless we have the right macro policies and perhaps some of the right industrial policies in place. We will be much better off than would otherwise be the case. Then during the process of these negotiations, we can begin the multilateral trade negotiations.

Overall, as long as we do not make foolish concessions, both in the bilateral and the multilateral case, the results of the trade negotiations are not going to be the significant factors affecting the strength or the viability of the Canadian and Ontario economies.

Mr. McFadden: With regard to the potential impacts of an agreement with the United States--I know that a lot of companies you have talked to have not even addressed the issue--your overall conclusion seems to be that even if we had no agreement with anybody, just left everything the way it was and did not even participate in any GATT rounds, we would run the serious risk of job losses here anyway.

Dr. Lazar: Yes, in the present policy environment, where, outside of the free trade negotiations, the sole focus of policy now is, should we or should we not reduce the deficits, period, with no consideration of what the implications are in providing signals to the business community about reducing the deficit, perhaps making substantial cuts and reforming a lot of industrial policies that we have in place that are, to a large extent, ineffective.

Mr. McFadden: One thing that could happen, regardless of what we do in our discussions, would be the development of protectionist legislation in the United States, certainly in excess of any buy America acts. I take it you did not really try to explore the effects of any of the protectionist legislation that is now before Congress on employment in Ontario.

Dr. Lazar: No. Again, that was outside the terms of reference, although I can comment on that from an earlier study I did on nontariff barriers. This is based on discussions I had in late 1980, early 1981, with American officials on this. They said that what you get in Congress are these periodic uprisings of protectionism. Congress fails to come up with any other economic measures, so this is a nice, simple way of trying to show the constituents it is doing something to protect jobs.

By and large, these policies do not go anywhere or, even if they are passed into law, the agencies responsible for enforcing the laws do so in a very slack manner; the key decisions are ultimately left with the executive, and the executive tends to be pro free trade.

There will always be these threats. They are there primarily to garner concessions from other countries. That is their major effect.

11:20 a.m.

Mr. McFadden: I note that some areas--specialty steel, for instance--were not even included in any trade legislation. There is a bar on any procurement of specialty steel products under an appropriations act that was put in. Obviously, the administration was not prepared to veto the whole appropriations act. I do not know whether it could do so even if it wanted to. That potentially could have cost quite a number of jobs, and yet it would not technically be considered protectionist in the sense of being a trade matter. Yet it found its way into appropriations legislation. It seems there are a lot of ways this comes in at us and at other countries. It is not aimed just at Canada; it is aimed at a lot of other countries.

In the case of specialty steel, it was not specifically aimed at us at all. A number of complex things are happening in this area that I guess we cannot anticipate. The worry I have is that, while you may not have 300 bills come into effect--you may not even have 10 bills per se--there are a lot of little ways that Canadian manufacturers or service providers, whatever it happens to be, can be hurt by relatively modest changes in appropriations legislation and other things. I know it is hard to estimate, but it raises a concern for me about the cumulative effect that this could have through rather small, incremental steps that Congress might put through that the administration itself might not necessarily intervene in.

Dr. Lazar: Let me make two comments. In the survey results I think there are about half a dozen or so references by Canadian companies to specific bills and potential negative impacts. This was about concessions they would like to see made by the United States, so there was some mention of this. Concerning the employment effects, I do not have any measure of them.

On the other hand, even if these measures get in--if they are attached to appropriations bills--some agency or department is ultimately responsible for managing that piece of legislation. Discussions I had with the major agencies suggest that, although there is this protectionist sentiment in Congress, the agency or department tends to be as liberal in its interpretation of the laws as it can be.

Mr. McFadden: Under the current administration.

Dr. Lazar: Again, according to the work I did for an earlier book, which dealt with the Carter administration, even there they tended to interpret the legislation as liberally as possible.

Mr. McFadden: I have just two other questions. We received a letter from a steel company that had done a survey of its customers about free trade. What they discovered in talking to their customers was that the Canadian-owned companies and the non-American foreign-owned companies were favourable to free trade, and the American subsidiaries were the ones that were the most reluctant about free trade. Did you detect a similar thing in your work at all?

Dr. Lazar: Are you talking right across the industries I looked at?

Mr. McFadden: Yes. Dofasco did a survey of its own customers and, I gather, suppliers. I am not sure; I cannot recall whether it was just suppliers or whether it was customers and suppliers. They came up with that finding. I do not have the report here now.

Dr. Lazar: I have included a table. It is about the fifth one down in the list of tables you have. It is entitled "Estimated Relative Impact of a Freer Trade Agreement on Production Levels in Ontario Manufacturing Plants; Simple Average of Responses"; the next table has the weighted average. What you find here is that, by and large, the foreign-controlled companies viewed a free trade agreement as more beneficial than did the Canadian companies.

Mr. McFadden: Your finding is different from this company's findings.

Dr. Lazar: Yes.

Mr. McFadden: That is interesting. What do you think will be the effect of the current thrust of something that the Ministry of Industry, Trade and Technology in Ontario and, I gather, the federal government are doing: global product mandating, getting companies away from the branch plant mentality and into the idea of global product mandating? Given your concern about the overall direction of trade and the effect it might have on employment, do you feel that the evolution of foreign-owned companies towards global product mandating would be helpful in both maintaining employment and developing export opportunities?

Dr. Lazar: The way global product mandating is being used in Ontario and Canada really displays an ignorance of corporate organizations. The way corporations are structured, if the Canadian subsidiary is an independent operating division reporting directly to headquarters, that subsidiary then will have a North American or a global product mandate for whatever product lines it produces. It is then up to Canadian management to recommend the development of new products to be sold in the North American or international markets. So global product mandating occurs automatically or naturally as a result of the organizational structure of corporations.

If the Ontario or Canadian subsidiary is not a separate operating division, we can talk as much as we want about how nice it would be if we had global product mandating; that subsidiary simply is not given a mandate. The operating division of which it is a part will have a mandate, and the Ontario subsidiary then will perform some production function within that operating division. Its task is determined in the United States.

What is critical, as I emphasized earlier in my comments, is that we somehow apply pressures--and again, I do not know how to go about doing this--on US companies to allow their Ontario subsidiaries to be independent operating divisions. If you have

that change in the organizational structure, then the subsidiaries on this side of the border will automatically be able to develop product mandates. However, unless you get that change in the organizational structure, you will not get the development of product mandates.

Mr. McFadden: Are you aware--I do not know whether anyone else is--of any surveys or reports that would indicate the percentage of American-owned companies that fit into either of those categories and what the trend is right now?

Dr. Lazar: With respect to trends, I cannot comment. On the basis of the interviews--and again we are looking at only 22 companies that I was able to get to interview--the split was about three quarters to one quarter. Only one quarter of the Ontario subsidiaries were separate operating divisions; three quarters were part of another operating division, usually a North American division, a machinery division or whatever. So a very small proportion--at least, within that group of companies--had the Ontario operations as an entirely separate operating division.

Mr. Ferraro: My first question--and I have only two--is really to some degree a derivative of Mr. McFadden's. I premise it by saying that my sense of what you are saying in this very limited presentation is, in essence: "Do not put too much attention into a free trade arrangement. Do not put too much attention into multilateral or bilateral trade agreements. The real emphasis of our thoughts should be," and I agree in part, "on the establishment of an internal industrial strategy and dealing with some of the internal problems." Would that be a fairly general statement to make?

Dr. Lazar: Yes, but let me add one point. I do not suggest that we have to go ahead and develop the industrial strategy or industrial policy. What we have to do is to go over the whole list of programs of an industrial policy nature in place at the provincial and federal levels and evaluate their effectiveness, trying first of all to point out where the problems exist.

Let us look at the programs we have in place. A lot of them can be got rid of. Many of them are useful, but in a changed form; so let us go ahead and make those changes. It is not a matter of reinventing the wheel; the wheel is here. The problem is that there are too many missing pieces and it is badly shaped.

Mr. Ferraro: However, it should be predominantly an internal type of thing.

Dr. Lazar: Yes.

11:30 a.m.

Mr. Ferraro: I am under the impression from some of the presentations and readings that this protectionist threat is much more real than you were led to believe. From that standpoint, it begs the question when, as you know, 90 per cent of exports from Ontario and 78 per cent of national exports are to the United

States. Does that not severely limit how much internal consideration you can give at this time? Do you understand what I am saying?

Dr. Lazar: Yes. I do not see why that would be the case. Given my view of how an industrial policy should evolve, you would be getting rid of a lot of so-called nontariff barriers that are essentially ineffective and that might cause minor irritations along the way--they might not--and you are playing around with the ones already in place that have potential. The danger is that in the negotiations you may say, "We are going to get rid of this policy." Then after your internal considerations you realize, "Hey, that was an important policy but we have just given it away." So the importance of the negotiations is to understand what you want to give up.

Mr. Ferraro: Yes, but you are talking about internal negotiations. I am finding it difficult to be perhaps as disinterested in talking with the United States--and I say that respectfully--and devoting more attention to Ontario and Canada, when we have that overwhelming degree of dependence on an external force. It appears to me that we should be looking at this on a 60-40 or 50-50 basis, based on where we are today. I do not sense that you feel the same way.

Dr. Lazar: What is really important in the negotiations is to develop a position in Canada as to what we want--what we are willing to give up, what we are not willing to give up--have it agreed to by Ottawa and the provinces, and then give it to the negotiator and say: "This is our bottom line. Go ahead and work out the best deal."

Mr. Ferraro: If you can ever get that agreement.

Dr. Lazar: Okay, but worrying about it more than that is really a waste of time. The problems are amenable to internal solutions. Where we are facing difficulty is in trying to determine or define the nature of the problem--and it is simply not the size of government deficits, though that may be a small part of it--to identify the underlying nature of the problem, and to go ahead and correct them.

Even though the bulk of our trade is with the US, let us not be too concerned about it. If these protectionist threats occur, we have in place a mechanism for government-to-government negotiations. If you look at the last 15 to 20 years, there have always been irritants arising between Canada and the US, and they have been settled by and large.

Mr. Ferraro: To the same degree that you have roughly 300 or 400 conceivable protectionist bills? You have to admit that in the last one to two years, these bills came up all of a sudden, whether as a result of one third of the Senate being up for re-election or whatever. There is surely a significantly larger number of possible threats now than there has ever been in the history of this country. Is that a safe assumption?

Dr. Lazar: I am not sure if in relative terms the threat

is greater now than it has been at some other times in the past. I have not studied previous periods as needing more attention. The only other comparable period is 1979-80. A large number of serious protectionist bills were proposed at that time as well. Maybe not up to the current number but a large number. As Mr. McFadden pointed out, all you need is for five or six to pass and, if they are enforced to the letter of the law by the agencies, you have problems. So it does not matter if you have another 290 on top; the marginal effects are going to be insignificant.

Mr. Ferraro: Yes, sure. One of the comments alluded to by members of this committee, and as a result of your report, is that many of the foreign-owned companies located in Ontario and Canada primarily to get away from the tariff barriers. How significant a factor do you anticipate the exchange rate in the Canadian dollar will be, and that here is one of the largest markets in the world, as opposed to the tariff barriers? I assume the latter is really a result of--you want a large market, you come in here and you get away from the tariff barriers. I suppose my specific question is: How significant a factor will be the Canadian buck at 71, 72 cents?

Dr. Lazar: Obviously it did not play a role in influencing the initial decisions for facilities here because you are looking at a time when the dollar was near parity. The current feelings I get, derived from what would be the effects of devaluation or appreciation of the dollar, are it would be quite significant. The current value of the dollar has not yet been factored into the planning process. United States companies are still operating with a long-term value of the dollar at about 80 or 85 cents.

A few more years down the road they may be working with a 70- to 75-cent dollar which would tend to offset the possibility of repatriating production employment to the US as a result of the elimination of tariffs. Given another five to 10 per cent devaluation of the dollar in their planning estimates, that would more than offset whatever elimination there is in the tariff, so that the two may cancel out.

Mr. Ferraro: One final question: If you are saying that the protectionist threat is not that great, that we can deal with it on a case-by-case basis, can you explain to me why these foreign nationals, in particular auto firms such as Toyota, Hyundai, etc., are scurrying to get into North America right now--if the protectionist threat is not real?

Dr. Lazar: I can offer two reasons; perhaps one is to get included in the auto pact and the other, to prevent quotas down the road.

Mr. Ferraro: The protectionist threat.

Dr. Lazar: We already have had quotas directed at automobile companies outside North America. That has already been in force.

Mr. Ferraro: Now you only have a handshake.

Dr. Lazar: The concern is to get into North America so that if this possibility arises in the future, these companies will be able to point to you and say, "We are good corporate citizens, we have facilities here, treat us the same as Chrysler, General Motors and Ford."

Mr. Ferraro: Obviously, the Japanese are much more concerned about the protectionist threat than Canadians.

Dr. Lazar: Quotas have already been introduced so there is a possibility they will be introduced again. Other types of protectionist threats are where you find the response of the Japanese is to allow the yen to depreciate quite sharply--

Mr. Ferraro: And the Koreans.

Dr. Lazar: But aside from that, they have not made many other concessions to the United States. An interesting point that was brought out several years back in a study of nontariff barriers was the difference between Canadian and Japanese negotiators with the United States. Canada will negotiate something with the US and it will abide by the agreement or it will simply say, "We are not willing to make concessions, we cannot," and that infuriates the United States.

The Japanese will sit down with the Americans for six months, sign an agreement that will please the Americans and the Japanese will proceed to simply ignore the agreement.

Mr. Cordiano: I have something on the subject. I want to go back to the table in your report with reference to reasons given by foreign-controlled companies to locate in Ontario. You have a relative score or standing from one to 14. First, could you explain, is that in order of most importance? Would that be from one to 14 or is it the opposite?

Dr. Lazar: It is in a descending order of importance, accessibility market being most important; government incentive being least important.

Mr. Cordinao: The relative score here has nothing to do with the rating.

Dr. Lazar: It just gives an idea that government incentive is rated much lower than accessibility to market.

Mr. Cordiano: I see.

Dr. Lazar: The possible range would have been from 100 to 300.

Mr. Chairman: To clarify the record, I think Mr. Cordiano is referring to the ninth table.

11:40 a.m.

Mr. Cordiano: It surprises me to some extent. Mr. Ferraro was saying in his line of questioning a few moments ago

that a foreign company would like to locate in Ontario to perhaps gain accessibility to markets, to get around quotas. It surprises me that government incentives are at the bottom of the list because we provide large incentives to manufacturers that are willing to locate in the province and other provinces do as well. As a relative rating I thought they would have ranked much higher in that order.

Dr. Lazar: The question dealt with what factors influenced the initial decision to set up production facilities in Ontario. These decisions may have been made anywhere from five to 45, 50 years ago. At the time of the decision many of these incentives may not have been available.

With regard to government incentives, government policies, there was an almost uniform agreement, with only two or three exceptions out of the 102 respondents, that the less government tried to intervene, the happier the companies would be and the better the economic conditions would be.

Mr. Cordiano: Nevertheless, incentives would lure a lot of companies to invest in a certain geographic area of North America. That would be an important factor in a company's overall decision to locate in a certain geographic location. If that question were posed with regard to incentives for these firms that are considering locating, how would that rate, relative to some of the other criteria you have listed?

Dr. Lazar: That was a separate matter, one I did not address. My feeling is, if you did go ahead and survey these companies they would say they would love the incentives but if all provinces, all states decided to abandon the incentives, chances are the ultimate location decisions would be unaffected.

Mr. Cordiano: This ties into the whole question of nontariff barriers and subsidies. In the US economy we see the relative standing of a lot of high-tech firms, etc., is tied to subsidies or the amount of money the government is spending on research and development in the aerospace industry and others.

I have no way of pointing to any evidence of this, but I suspect that a lot of these firms are tied to the spending in the military budgets of the United States and the research and development going on there. That is a huge subsidy for these firms. This ties into the whole question of nontariff barriers and what we consider a subsidy and what the Americans consider a subsidy. WAould this not figure in the whole argument?

Dr. Lazar: You raise a valid point. The biggest industrial policy going in the United States is the defence budget but if you question Americans on this, they do not view that as an element of industrial policy at all. They do not view it as a subsidy. It is how the market operates. However, it is the most important component of an industrial policy and the most effective.

For Canadian negotiators in determining our negotiating position, that implies we have to emphasize to the United States: You have a big program in place. Add up everything we have in

Canada and, even on a relative basis, it still does not amount to what you have there. So if you are asking for a concession here, let us go back and look at defence.

Mr. Cordiano: Exactly, and I point that out because you stated earlier that we have to review some of the industrial policy we now have in place and with regard to the incentives that are available, you make a very valid point. It would serve us well to look at some of the various programs that we have available, the confusion out there and the thrust of this industrial policy or these policies at various levels of government. That triggers into the whole argument of what we consider a subsidy.

Dr. Lazar: In response to that, in a comment made by Stuart Smith at a conference in Ottawa on the Macdonald commission, his conclusion there was he would be willing to abandon all industrial policy initiatives across Canada as long as he were given a budget one-tenth the size of the defence budget, excluding the costs of the military personnel, and able to use that as he pleased. He said that he would even settle for a budget of $10 billion to $13 billion, which is even less than the 10 to one ratio.

Mr. Ferraro: It is my understanding--and my figures may be wrong--that with a defence budget of approximately $110 billion, you must have a competition on roughly $60 billion. For example, tenders are invited or asked for from acceptable countries. Is that not correct?

Dr. Lazar: I am not sure what the ratio is on that. The person to ask would be Arthur Donner, who did a study for the Ministry of Industry and Trade on defence sharing. He might have those figures.

Mr. McFadden: I have two questions. I was following up from this unnamed table--I think it is table 9--dealing with the "Relative Importance of Selected Factors in Influencing Decision of Foreign-Controlled Companies to Build Manufacturing Plant in Ontario." As I understand it, 100 was the highest score you could get.

Dr. Lazar: No.

Mr. McFadden: What was that? I am trying to get an idea of how you relatively scored this.

Dr. Lazar: This was based on the questions which were asked: Rate these very important, important, unimportant, and assign a score of one for very important, two to important, and three to unimportant. I took an average across the respondents. The lowest score you could have had on that basis would have been one. Accessibility to market got the lowest average. It had something in the order of 1.4, or thereabouts--so more towards very important than important. I simply took that score and said, "This is now 100, and I will rate everything relative to accessibility to market."

Mr. McFadden: The thing I find interesting about this is

that since the Depression, tariffs have been steadily dropping to the point where in a number of areas they are now substantially nonexistent, or close to nonexistent. Therefore, figuring that in the long run, that probably is going to be less important, it is interesting to note, as was mentioned earlier, that the most important considerations are those that the government per se cannot easily influence. Accessibility to market, for example. Unless we were to remove nontariff barriers within Canada itself, or between provinces, that might be an accessibility problem.

But if you take a look at other factors, such as closer contact with buyers and suppliers, lower labour costs, availability of non-union labour--which potentially is tied up with labour legislation--lower transportation costs and so on, you would have to work a fair distance down the list until you find something that, strictly speaking, would be looked on as a government initiative in the area of job creation. Look at item 10, preferential government procurement, as an example. Lower tax rates are at 9.

I find it interesting that the major points, which are clearly in the lead, are those that are related more to the marketplace than they are strictly to the government. I note, as well, items 13 and 14 are accessibility to research centres--which are normally government, although they could be universities--and government incentives. I would assume that a number of those major points would remain very operative, whether or not we had freer trade arrangements with the United States, or whatever we do with the Pacific Rim, with respect to accessibility to market, closer contact, lower labour costs, and so on. Those factors are still going to be there.

11:50 a.m.

Dr. Lazar: Let me make a point. I think you are misinterpreting this table. Again, it is looking at the factors that influence the decision to locate plants in Ontario. It does not discuss the importance of these factors at the present time, in giving some competitive advantage. There is a preceding table entitled "Relative Importance of Selected Factors in Giving Company a Competitive Advantage in the Ontario Market." What that preceding table shows is that at present tariffs by and large are not important in giving companies competitive advantage in the Ontario market. The three most important factors are quality, service and costs.

Mr. McFadden: To get a market-related factor.

Dr. Lazar: Market related, but one can then ask: "Is there anything you can do to improve quality, to develop an awareness of the importance of quality? Is there anything government can do to influence costs?" Technology is a fourth factor, but they are primarily market related. With regard to your question about tariffs having come down, this table shows that tariffs are not an important factor today on average, although there are some exceptions, in giving a company a competitive advantage in the Ontario market.

Mr. McFadden: I see. That just reinforces the point I was making. The decision as to why people are here, as well as to why they are locating here, is probably more market driven on balance than anything else.

Dr. Lazar: Yes, and why they have a competitive advantage in the obvious market variables.

Mr. McFadden: The other area I want to ask you about is on page 4. We have the worst case scenario listed of "sluggish growth, increased government intervention in the economy," an appreciation of the dollar--I do not know why that would happen, but I guess it could--"a short transition period" and "many more concessions by Canada than the US." I presume that develops a rather disastrous scenario. That would cost us 69,000 jobs.

Dr. Lazar: At a minimum.

Mr. McFadden: A a minimum. That would be if we really had an awful deal and the whole economy went off the rails.

I am curious to know about the other scenarios. It is probably somewhere in the tables that I have not had a chance to look at. I am curious to know the range. This is the worst scenario. I take it that the best scenario, you are suggesting, is almost a wash, neither an increase nor a decrease. Is that what I am to read from this one?

Dr. Lazar: You almost reverse these for the best scenario, strong growth, less government intervention, a modest depreciation, a five- to 10-year transition period and more concessions by the United States and Canada. From the figures I have here, the employment effects of that for the average case are from minus two per cent to plus 10 per cent; in the best scenario situation, you end up with in total a possibility of about a 15 per cent increase in manufacturing employment.

Mr. McFadden: That is the best case.

Dr. Lazar: Yes. Compared to the average case, you are looking at an additional seven per cent or eight per cent increase in employment growth.

Mr. McFadden: When you are preparing your final report--maybe it has already been typed--will you clarify that because it is unclear to me? I do not know whether that is possible. I got the point about the worst case and I am trying to get a handle on the best case and the medium case, because things seldom work out best or worst; they are usually somewhere in the middle. It would be interesting to know the ball park we are playing in as we move along.

Dr. Lazar: I have that in the report. If I were to summarize all these possibilities, I would be duplicating what I have typed up.

Mr. Cordiano: I would like to ask a supplementary question. With reference to the best case, where does the dollar

value figure in there? Does it go up or does it stay the same?

Dr. Lazar: No, it falls somewhat. You are looking at somewhere around the 68-cent or 69-cent range.

Mr. Mackenzie: My question is almost supplementary as well. I want to understand clearly what you have at the top of page 4. The worst or best case scenario has to do with the growth, the economy, the dollar and all the rest of it. You comment, "The pure effects of a FTA were all found to be negative: minus three per cent to minus 10 per cent for all companies, and minus two per cent to minus seven percent for only the Canadian companies."

Dr. Lazar: Yes.

Mr. Mackenzie: In other words, it was very clear that without the planning or the economic growth in the country, the free trade agreement itself was not going to produce any major benefits in the response you got from the companies.

Dr. Lazar: It was not going to produce any additional jobs on average.

Mr. Mackenzie: In fact, it was totally negative.

Dr. Lazar: Yes.

Mr. Mackenzie: I think we tend to miss that. There is a hell of a lot more involved in exactly what we are going to do with our economy or in what kind of planning is going to take place.

Dr. Lazar: What I was reporting on page 3, when I said the range was minus two per cent to plus 10 per cent, allowed for a free trade agreement and normal expected growth.

Mr. Mackenzie: Normal expansion in our economic growth?

Dr. Lazar: That is right.

Mr. Mackenzie: The pure results of free trade were totally negative.

Dr. Lazar: They were totally negative. The only time I found positive results was when you had a devaluation of the dollar to about the 66-cent range.

Mr. Mackenzie: A 66-cent dollar?

Dr. Lazar: Yes. If the assumption is that it declines to that level from the 71-cent or 72-cent dollar we are working with, that could offset the negative effects of a free trade agreement.

Mr. Mackenzie: Because it was not part of the mandate you were operating under in this study, it also did not take into account at all any adverse affects in terms of the sovereignty situation.

Dr. Lazar: That is correct.

Mr. Mackenzie: The other thing I wonder about, which is on page 3, is when you say "the role of the Ontario subsidiary in the overall corporate structure determines its input into the planning process. If it is part of an operating division, it has little input. If it is a separate division reporting directly to headquarters, it has much input." I think you gave us the figures, but I cannot remember. Was it two thirds to one third or three quarters--

Dr. Lazar: It is three quarters to one fourth.

Mr. Mackenzie: It is three quarters to one quarter. Only one quarter of the Canadian companies you talked to had a separate operating division.

Dr. Lazar: I talked to the US companies.

Mr. Mackenzie: US companies that had a separate operating division in Canada. As you saw it, the key in terms of any real gains, whether in world product mandating or what have you, was whether the American company had a separate Canadian operating identity?

Dr. Lazar: Yes.

Mr. Mackenzie: In response to one of the questions that was asked, you indicated that you had no indication whether that was a growing or decreasing figure. It is certainly not a high. It ties into what we ran into all the time a number of years ago in the select committee on plant shutdowns and employee adjustment: Decisions on research and development are not made in this country at all; it was one of the real problems we had.

Have you any idea what effect a free trade agreement would have and what the rationalization might be in terms of American firms being able or willing to set up totally separate operating divisions in this country? I have some difficulty with it. Part is the whole access problem. We have a country that is spread along the border and hardly a Canadian city is more than about 50 miles from major US industrial areas.

Dr. Lazar: I do not think a free trade agreement is going to influence the organizational structure of a corporation.

Mr. Mackenzie: Without that, you are making it clear that we do not have a hell of a lot of future in terms of world product mandating or the ability to make major decisions.

Dr. Lazar: That is right if you are dealing strictly with subsidiares.

Mr. Mackenzie: One of the things we would have to have as part of any such agreement would be some kind of influence, if that is the word I am looking for, in terms of instructing or

requiring major American companies to give that kind of authority to their divisions in Canada.

Dr. Lazar: That is an issue entirely separate from the free trade negotiations. If we take the approach of saying we are instructing them, that is likely to be more detrimental. With a free trade agreement, if we say, "If you are going to operate in Canada, you have to have a separately reporting operating division or else you cannot operate," the companies will decide, "We will not operate."

Mr. Mackenzie: That is exactly the point I am making.

Dr. Lazar: My point is how you go ahead influencing the organizational structure.

12 noon

Mr. McFadden: You are saying that would cost us thousands of jobs.

Mr. Mackenzie: There is an even greater concern here, if I can raise it with you for a moment. You are saying as a result of your study that those companies responding to your questions 16 and 17 on key concessions in a free trade agreement brought up four issues repeatedly.

Two of them were were a long-term phase-in or transition period, obviously because of concern over the extent of immediate dislocations, and no change in the auto pact; if I know anything about negotiations, I suspect that is going to be a major item on the table. There is about a $5 billion surplus and it is the only surplus I know of in terms of value-added industrial manufacturing production that provides jobs. I know there are a fair number of lost American jobs.

If you have a comment on this, I would like to know it: One concern raised by the auto parts people with us and with some of the unions was what is likely to happen to the auto pact agreement with the changing pattern of Japanese investment and Japanese plants in the United States and Canada, whether that agreement is going to hold or whether we are already in some trouble there, let alone having it as one of the items we are going to set on the table and say is not negotiable. The question in my mind is what we give up as soon as we do that.

Then there are the buy America items. We have listed four major items that they want.

We are also faced with the fact that one of the other things you are telling us clearly is that in the course of these negotiations, if we are to have any real input, we have to find some mechanism. If requiring it or asking them for it is not the answer--and I agree with you that we give up a hell of lot in negotiations the minute we do. We are going to have to decide that one of the other things we need is a much more major role, as corporate entities, for American plants here in Canada.

Dr. Lazar: That is part of the internal decision making.

Mr. Mackenzie: It is part of the negotiations, but it means we have to gain one hell of a lot in those negotiations.

Dr. Lazar: I think that is separate from negotiations. That is an important problem, but it is something that has to be kept entirely separate from negotiations. In discussions with US and other foreign companies, we have to look at how we can go ahead and convince them that their Canadian subsidiaries should be treated as separate operating divisions. That is a separate matter from the trade negotiations.

Mr. Mackenzie: The only thing I do not understand is, if that is so vital to us--and I think you are right about that--how do we separate that from the negotiations? Does it not have to be part of the negotiations?

Dr. Lazar: In the negotiations, we are dealing with the US government, and the point we are discussing deals with US corporations. You are discussing different issues with different entities. If you start to bring it together on the same table--

Mr. Mackenzie: It is something like one of the questions we asked in Washington, to which no one has yet given me an answer: Are the countervailing duty arrangements in the US on the table? It was one of the Senate committees. We have to put everything on the table. Countervailing duties are the protection American industry has. We were told very clearly--I do not think anybody will dispute that--that was their protection and was not on the table. It seems to me there is a counter-argument right off the bat, in terms of the Americans making sure there are no disincentives to their business, that we cannot do a damned thing about.

Dr. Lazar: You are not talking about disincentives to business; you are talking about whether there is any way we can convince US companies to alter their corporate structure, and that it might be beneficial for them to do so. I am not sure just how you go about doing that, but it is something that probably merits going to some government department or agency, or getting into discussions with US corporations on the feasibility of their altering their corporate structure and convincing them of the advantages of doing so.

Mr. Mackenzie: We not only have to do the best job we can in terms of free trade, but at the same time we have to encourage American corporations to alter their basic structure and philosophy so that we can benefit.

Dr. Lazar: That is something that could be fairly volatile.

Mr. Chairman: They would be encouraging theirs to do the same.

Mr. Mackenzie: I look at the size of our two countries.

Mr. Cordiano: I have a question with regard to foreign multinationals operating in Canada. How willing are they to export and how much exporting are they doing now? I may have had an answer to that question, but I do not recall any figures. Perhaps you can shed some light on that. Did you have occasion in your study to come across that kind of information?

Dr. Lazar: I did not address that issue, but in the light of some of the comments, whatever exporting does occur from Canadian operations in most cases is determined by US-based executives. The Ontario plant fits into the operating division in a certain way and has been told to produce something. That decision might involve exports to other US operations or elsewhere. If it is a separate operating division, the Canadian executive, if he or she sees opportunities in the market, can say: "Here is an opportunity for this product. This is how we are going to develop it." It will then move to the next stage in the planning process and mostly likely get approved. Then the subsidiary will enter into foreign markets.

Mr. Mackenzie: Black and Decker and SKF are two examples.

Mr. Cordiano: We need to know how willing these foreign multinationals are to engage in gearing up their production for world product mandates, which some of them have been doing, and to get a feel for that vis-à-vis how aggressively Canadian companies are exporting and how they are going out and seeking additional marketplaces. I think there is a fundamental question in all this about the foreign multinationals being inclined to deal on a world product mandate or in fact being restricted from doing so. Where does most of our exporting capacity come from now? Are we just shooting in the dark? Do we have some ability to increase that with the foreign multinationals?

Dr. Lazar: You have to make two distinctions. You may have a Canadian subsidiary that is not a separate operating division still exporting a large proportion of its output. The exports will go through other companies within that division. That is the way the production process has been set up within that division. It is an integrated manufacturing capability. The Ontario plant is part of it. A large part of what it produces is exported and a large number of the components it uses are imported. You may get a high proportion of exports, even if it is not a separate operating division.

What you get in that case, though, is that the Ontario subsidiary does not have any responsibility for developing new products or penetrating new markets. You may have a case where it is a separate operating division and yet it does very little exporting because it has not seen the opportunities in the international marketplace and finds there are more than enough opportunities to develop in the Canadian marketplace. You may have a situation where you get fewer exports. However, in that case the Canadian subsidiary does have the potential to develop new products for the world market.

Mr. Cordiano: Do you believe the foreign multinationals

will be more inclined to look at world product mandates and push for them with their parent companies for their very survival?

Dr. Lazar: You have to keep in mind the way corporations organize. Each operating division has the world mandate for whatever products have been assigned to that division. The question then becomes, where is the Ontario subsidiary in this corporate structure? That is the way corporations are structured. The divisions already have the world product mandate. The problem facing Ontario subsidiaries is that they may not be a separate operating divisions with their mandates.

Mr. Cordiano: What I am trying to get at is, how much of that exists now in our economy? Is that a real encumbrance to expanding our trade worldwide, let alone with the United States? Is that really hurting or hampering our economy? That is a fundamental question in this argument.

12:10 p.m.

Dr. Lazar: Is it hampering our economy?

Mr. Cordiano: Is it holding us back from exporting more or being more aggressive worldwide? That is a criticism that we have long heard.

Dr. Lazar: It is holding the Ontario subsidiaries back from being more aggressive in world markets. Does that mean they are going to be less export oriented? Not necessarily. Again it could be, given the developments and internationalization production, that there is more integration of manufacturing facilities and the Canadian-Ontario subsidiary sells a large part of its output to other manufacturing operations within this division. It may be highly export oriented, although it does not have any control over what products or components it sells and to whom it sells. This is simply dictated to the Ontario subsidiary from the US executive responsible for that division. But it may be very highly export oriented.

Mr. Cordiano: I am not certain whether this question was posed in the three studies that we have commissioned. I believe it was something we raised during the interim report. At that time, I felt that it was crucial question to be posed with regard to foreign multinationals. Perhaps our researcher can elaborate on that. I would like to know if any work was ever done on that question.

Mr. Traficante: None of the consultants directed their research to that specific question, although I think part of Arthur Donner's work dealt with those issues; how much of it I am not quite sure, but we can ask him this afternoon.

Mr. McFadden: I would like to pursue this latter line. You mentioned that the basic reason people located here was that they were market driven and was not related to what government is doing. If we were to decide to put in controls of how corporations might act as part of the free trade discussions--and this would only relate to American, not all, but I guess you could bring them

all in--would that not hasten the process that you have already commented on about world readjustment for this country, that not only foreign-owned companies but even Canadian-owned companies may take that as a signal that they might find a better atmosphere elsewhere? Since atmosphere is the most important thing, as you have mentioned, is that not going to be a tremendous disincentive that could jeopardize the future of our economy in job creation and employment levels?

Dr. Lazar: If you are saying, "You have to do the following in order to be able to operate," yes. I always supported the Foreign Investment Review Agency while it was in place. The criticism I had of FIRA, as did many others, was that the rules were never formalized and no one really understood what the rules of the games were.

However, once you did away with FIRA, to now reintroduce it would generate the wrong signals and would have a detrimental effect. You cannot go back to where you were and say, "Let us correct the defects in the previous program and reintroduce it." Once you have done away with it and the business community accepts that, then you say, "The rules of the game have changed, now alter them," they would say, "There are simply too many mixed signals and let us get out of here."

Mr. McFadden: The final item relates to the expectation with respect to trade. We were talking about the pure effects of a free trade arrangement. I take it that is in isolation to the world, business decisions, environment, the dollar and everything else. Obviously those figures are not realistic. I am just trying to get page 4 in some sort of context. As I understand it, the next paragraph with the various scenarios and variables added in is the realistic way to look at it in the sense that a policymaker muist add in the variables, and look at the range of everything altogether. It would be the same as saying, "If we do nothing else but bring in controls on foreign subsidiaries and require them to do something in isolation to everything else, we might cause a tremendous exodus of money and jobs," which we are not suggesting.

As I understand it, and correct me if I am wrong, the final paragraph is the one that, with respect to our thinking, we should be addressing ourselves to with respect to all the variables, from the best case to the worst case and what is in the middle. Would that be accurate? I am trying to get a handle on where you think we should be putting our attention with regard to our analysis.

Dr. Lazar: In the final report, what I have there specifies under the best case possible, which deals with each of these variables, some of the net employment effects. With the worst case, we have spelled out here the net employment effects. Then we have some sort of middle range between these two. It is obvious what the middle range involves with respect to each of these assumptions and results as summarized on the preceding page. These are what we can expect.

You have the net employment changes, but regardless of whether you take the best, the worst or the average case--and as long as you do not take the devaluation of the dollar situation--a

free trade arrangement on top of whatever other assumptions you want to make does produce a net job loss.

I am suggesting that the net job loss can be made much worse if there are other factors working against us, or it can be entirely overcome and you can have net job creation if you have the right policies in place.

Mr. McFadden: This is a net job loss in the 10 industries we are talking about.

Dr. Lazar: Yes, and they accounted for over three quarters of the employment in manufacturing.

Mr. Mackenzie: I have one final question. I want to understand, if I can, exactly what it means.

I asked you the question earlier about the pure effects of free trade all being found to be negative, minus three per cent to minus 10 per cent for all companies and minus two per cent to minus seven per cent for only the Canadian companies. That obviously implies that the negative effect is probably much larger than the non-Canadian companies.

Dr. Lazar: Yes.

Mr. Mackenzie: Is that then part of this concern we have had about the potential repatriation of branch plants?

Dr. Lazar: It might be reflected in that.

Mr. Mackenzie: Is there any other argument, apart from the repatriation of branch plants? That is what came to my mind first. Have you run into anything else?

Dr. Lazar: In the report I did not discuss any other possibility. That is a possible explanation. Or when you say "given the differences," they may not be statistically significant differences.

Mr. Mackenzie: Okay.

Mr. Chairman: Perhaps I can interject here. If members of the committee could grab their pens, and it might be of some assistance to put it in Hansard, the first table attached to the notes has some numbers with regard to small, medium and large companies. Professor Lazar has indicated that small companies are those with 15 to 99 employees; medium companies, 100 to 249 employees; large companies, group 1, 250 to 999; large group 2 is 1,000 to 4,999; and large group 3, item 9, is 5,000 and over employees.

The second table, I take it, can be entitled, as a short title, Unilateral Concessions by the United States?

Dr. Lazar: Actually, what it means here is more concessions by the United States than Canada, to be correct.

Mr. McFadden: Where are you?

Dr. Lazar: That would be the best-case scenario.

Mr. Chairman: That would be the second table, the table that is entitled Estimated Impacts of a Freer Trade Agreement on Employment Levels in Ontario Operations, Best-Case Scenario, 1995. Perhaps "unilateral" is a little harsh.

Dr. Lazar: Yes. The same for the following tables, more concessions by Canada, not unilateral concessions by Canada." That would be the worst case.

12:20 p.m.

Mr. Chairman: Right. The third table is now entitled Estimated Impacts of a Freer Trade Agreement on Employment Levels in Ontario Operations, Worst-Case Scenario, 1995. Similarly, that would be more concessions by Canada.

The fourth table is based on bilateral concessions.

Dr. Lazar: Yes.

Mr. Chairman: In the fifth table there are titles, VB, B, H, VH, etc. Those initials mean as follows: VB means very beneficial; B means beneficial; H means harmful; VH means very harmful and N means neutral. That applies to the following table as well.

If there are no further questions, I will thank Professor Lazar for what is obviously the beginning of an extremely helpful report to this committee. You have been extremely helpful to us today, sir, and we look forward with great anticipation to your complete report.

If I may impose on you, we may well be asking you to come back once we have seen the complete report. I understand you will be including more references to an assessment of the Kennedy round tariffs and, looking back on that, where we have gained and lost, as well as more comments on your own interviews and so forth.

Thank you very much for bearing with us today.

Dr. Lazar: Thank you very much for inviting me. I look forward to coming back and giving you another chance when you have the whole report and have had some time to look at it. Some of these questions probably will be resolved when you have read it and there may be others that will arise.

Mr. Chairman: Members of the subcommittee, I am reminded that we will meet here at 1:30 sharp. I would like to ask you to be on time because we have a number of things we would like to resolve before the committee meets publicly again at 2 o'clock.

The committee recessed at 12:24 p.m.

E-46

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

FRIDAY, FEBRUARY 21, 1986

Afternoon Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
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McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitution:
Stevenson, K. R. (Durham-York PC) for Mr. Barlow

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From ARA Consultants:
Donner, Dr. A.
Mogil, N.

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON ECONOMIC AFFAIRS

Friday, February 21, 1986

The committee resumed at 2:13 p.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: We can call the meeting to order. Over the lunch hour, there was a very good but short meeting with a representative of each party and myself. We discussed a number of things. I realize it is Friday afternoon but out of respect for our guests, could we divert the housekeeping matters until we have finished dealing with our guests? We can deal with the other matters after wards. I expect that will shorten the debate on a number of those matters.

A.R.A. CONSULTANTS

Mr. Chairman: Professor Donner, as I indicated to you, we have received the report. A number of us have had a short time to go over it. There are a lot of questions. I do not know whether you wish to make any opening statement at this time. If so, please go ahead.

Dr. Donner: Norman Mogil and I have an opening statement which will briefly summarize the report.

Mr. Chairman: That is a good idea.

Dr. Donner: We are very pleased to have the opportunity to report on our study of the implications of Canada-United States free trade for the Canadian high-technology industries. Our study had three primary objectives: to identify the important tariff and nontariff barriers which affect Canadian-US trade in high-technology products; to assess whether removal of those barriers would prove difficult for various sectors of the high-technology industries in Ontario; and, finally, to recommend a negotiating strategy for Canada.

We focused on five aggregate sectors which included office machinery and equipment, telecommunications equipment, aerospace and aircraft manufacturing, scientific instruments and industrial chemicals. The industries we looked at are not homogeneous, but they do share in common a series of characteristics. They tend to be very high-risk sectors and very dependent on export markets; there tends to be a basic shortage of investment funds and there is a very high degree of foreign ownership.

With regard to the products we produce, there is a mixed degree of industrial maturity. We produce products that are primarily at the industrial end rather than at the consumer end. Canada's high-technology industry is very tiny, too tiny to be comfortable for a country which believes it is at the leading edge of the future.

As I noted earlier, because our goods are mainly industrial, the industry involves very heavy government-to-government trading arrangements and trade barriers. With respect to trade of high technology with the US, much depends upon the defence procurement of the United States and the buy-American activities in that country.

We observed in our study that there is a very high and positive correlation between corporate expenditures, research and development, value-added economic growth employment and expanded international trade for a particular industry. It is not surprising that governments tend to support corporate investment in research and development since it benefits the whole economy. As we observe in our study, the marketplace, left to its own resources, would tend to underinvest in research and development.

Furthermore, Canada's high-technology sector is highly foreign owned. Once again, our study indicates that foreign-owned, high-tech firms tend, on balance, to underinvest compared with their Canadian counterparts doing business in Canada.

Thus, it is a very serious matter of concern that in research and development spending in the high-technology sector Canada ranks lower than virtually any other industrial country. To the extent that research and development is closely linked to the growth and value-added employment and exports, particularly in the communications, aircraft and computer sectors, Canada's poor trade and economic performance in high-tech products can be directly traced to the low level of research and development spending in this country.

Part of our report deals with the issue of adjusting to free trade. If you examine the current trade statistics, Canada had about a $12-billion deficit in high-technology products in 1984. The five sectors we examined accounted for $9 billion of that $12-billion deficit.

Most of the various sectors are in deficit. The largest, high-trade deficit sectors tend to be electrical products, scientific equipment and office machinery. The smallest deficit tends to be in aircraft, aircraft parts and chemicals. When viewed alone, the communications sector is somewhat more of a microcosm and tends to be in surplus. In high technology, there are very large volumes of trade in both exports and imports.

With respect to some of the issues we believe are important to adjust to a freer trade environment, I will list the following: (1) There is already a low or tariff-free trade environment in existence; and (2) Canada is particularly vulnerable to a freer trade environment since tariffs are already too low to protect our industries, and yet at this time international nontariff barriers seem to restrict access to other markets.

Several Canadian firms have penetrated the US very well. We mentioned Northern Telecom Ltd., Mitel Corp. and AES Data Ltd. as examples in our report. Many Canadian subsidiaries appear to have world-product mandates, thus, they are somewhat competitive on a

worldwide basis. Most of the Canadian companies we interviewed favoured freer trade arrangements with the Americans.

Finally, the Canadian wages tend to be quite low because the Canadian dollar is quite low at this time. As a place to invest for high technology, on balance, Canada's costs of production at this time are fairly advantageous.

I am sure you have heard this from other economists, but we will add that the theory of comparative advantage is useful but of slightly less use in this industry. Comparative advantage is a very fluid concept, not a fixed concept. Most countries behave as though they have a comparative advantage in high technology.

From our perspective, comparative advantage is what government wants to make of it. High technology, worldwide, is very much a government-driven sector. I argue that, because of the neglect of our high-technology industries in the past, we do not seem to have an overwhelming advantage in this area. That shows up in the long-term fact that we have deficits of fairly significant sizes in this area.

In some of the conclusions we reached in our report, we considered what would happen if we had a freer trade arrangement with the United States. We observed that Canada would potentially benefit from access to new markets in the United States if access could be arranged.

We noted that our domestic market for high-technology goods is no more or less vulnerable than other markets. Once again, you have to recall that our high-technology industry is very tiny. We have large deficits already. Therefore, it is not terribly threatening to move towards freer trade in that environment.

From our interviews and our analysis, we did not run across any immediate negative impacts on employment. Once again, this relates to the fact that our high-technology industries are truly very international and are competing that way.

2:20 p.m.

It follows that we did not run across any major quick possibilities of disinvestment by US-controlled subsidiaries if the trading arrangements changed suddenly. However, I underscore that the real issue is not the short-run immediate issue, but rather the intermediate-term issue, which is, whether the mix of industries and companies we have will tend to reinvest in the future.

If you look worldwide, private investment in the high-technology sector is very much government driven. Once again, it comes down to what kind of arrangements or roles we end up with, with respect to government policy in this area.

We also attempted to help frame something that would be useful to you as a negotiating position for Canada in the bilateral talks. We suggest bluntly that we should reduce all

tariffs in the high-technology area. They serve virtually no protective purpose at all.

It should be recognized in the negotiations that governments are the major purchasers of high-technology products. Governments will use their strengths to foster their own industrial development interests.

We also argue that Canada should have the right to pursue its own industrial support programs in this area. The US government surely will also wish to pursue its own close relationship between government and the military space industries in that country.

Using an example to underscore that point, in 1983, US government direct aid to high-technology firms--this was through the Department of Defense, National Aeronautics and Space Administration--amounted to $8.5 billion. This does not include the huge amounts of aid that flow out of the states and local governments to the high-technology industries in this case.

With the immensity of government support in the United States and the tininess of our own industry, Canada poses no threat to the US industry. We should be very firm that government support programs in Canada should continue and move up to higher levels, as they exist in the United States.

Canada should seek some easing of the US government's widening use of national security restrictions on the transfer of technology to Canadian subsidiaries and to Canadian-owned companies which wish to bid on US Department of Defense products. There might be a means to promote the better access or use of the defense production-sharing agreement between Canada and the United States, which is a means of expanding Canadian sales of high-technology products into that country and of providing more access of US technology to Canadian firms.

I remind the committee that the defence production-sharing agreement guarantees Canadian companies only an opportunity to compete. It does not guarantee that they will be able to compete successfully.

Our own analysis suggests that, in the past, Canada has not done badly under the DPSA, but that we face a far riskier future. That is partly because we are in a stage of rearming and we do not produce complete weapon systems. It is going to be more difficult to try to balance our trade in the future under DPSA.

So much of our high-technology trade is linked, in the opportunistic sense, to US national security. I point out that the US Department of Defense has established a list of critical components which can be supplied only by American firms. Canada tends to be awarded approximately 0.65 per cent of US defence contracts. This is in value terms. A doubling of that tiny percentage to 1.30 per cent would result in an additional $100 million to $150 million a year in high-technology exports from Canada to the United States.

As a result, US-based firms tend to receive a competitive edge with respect to the Department of Defense and NASA procurement policies, primarily because American firms are more highly subsidized in terms of their research and development activities.

With respect to so-called, nontariff barriers that Canadian firms encounter across the border, there is the Buy America Act of 1933. Many individual US states have their own equivalent of the Buy America Act or preferences. They are related measures, which are sometimes called "set-asides," in which the US government and/or the state governments allocate five to 15 per cent of their contracts for US small business or businesses located in high unemployment regions.

There is also a series of other barriers related to copyright laws, international standards and restrictions on the transportation or movement of professionals to service equipment to the United States. This is, by the way, something we ran across just recently. There are restrictions related to Federal Communications Commission standards on import components and, once again, restrictions related to technology transfer.

To conclude my brief comments, we recommend that the legislative committee raise the profile of our high-technology sectors in the forthcoming trade negotiations. In our view, to date the debate has focused primarily on logs and hogs, but agriculture and forestry are much more the industries of the past, not the industries of the future. Interestingly enough, there seems to be less acrimony in the trade relations with respect to high technology between Canada and the US than there is with respect to logs and hogs.

Mr. McFadden: I want to explore a couple of areas with you.

One was the whole area of US defence contracts in various high-technology areas and in the area of general government procurement.

It is my experience and understanding--and we received some evidence of this in Washington when we were there--that one of the reasons Canadian companies have not secured a larger share of various contracts from the American government stems not so much from any bar on the part of the American government but from a lack of aggressiveness on the part of Canadian companies in Washington. They are not there on a regular basis soliciting the business, working with American government agencies in terms of the kinds of tenders that are going out, the kinds of specs and so on.

Canadian companies have a very good reputation in the United States for the supply of high-technology products. Some of the companies are well-known to Americans as well as to Canadians. Spar Aerospace Ltd. is one of the more obvious, but there are many others supplying either complete systems or just components of systems.

Could you comment briefly on this whole area? One of the matters that may be depressing our performance, to some extent at least, is the fact that our companies have not been aggressive enough in going after some of these contracts.

Mr. Mogil: In some cases, that may be very true. In other cases, is a kind of catch 22 operates. Many United States government specifications for new contracts come out in such a way that it is difficult for a Canadian company to bid on them. They come out too late or they come out with some restrictions on the information related to the bids. If you do not have the information, you cannot bid on it, and without the information, it is absolutely hopeless to make a sizeable and decent bid on it.

In some ways, it blunts the efforts of Canadians to go to the US and seek out contracts if you are caught in a situation where you will not get the kind of information and the access to information that you need to form a proper tendering bid.

Dr. Donner: Can I add some comments to that? From our work on this project and other projects, it struck us that historically in Canada, the defence production sharing agreement has been neglected or has not been given enough federal government attention. I cannot comment at the provincial level. I do not think that is the case now, but up until recently it was somewhat neglected and was not promoted as much as it could have been by our own government.

2:30 p.m.

Second, from our interviews, it became quite clear that, to the degree we have allies in the United States, it is not the US Congress but the Department of Defense that, for very sound military and other reasons, wants to make sure there are reliable areas where it can procure close by.

Finally, I stated in my opening comments that there seems to be less acrimony in this area. One subject that is somewhat acrimonious between the two countries relates to our practice of offset trade. In other words, whenever we buy big weapon systems or other big systems, the practice that has developed over the past five years is to try to have it offset. The Americans argue that offset trade does not really show up in the defence production sharing agreement numbers.

I guess what I am trying to suggest is the DPSA probably is a mechanism that could work better for us and maybe the Americans as well. Perhaps that is something that should be given a little more prominence in this free trade debate.

Mr. Mogil: I have a last comment. We never found anybody who did not want to go into the United States and become an active player in the US high-technology market. They all wanted and needed it; it had to be done. When they were turned off by some US barrier regarding either national security or sending people to the United States to service a product or machine, that did more

than the fact they really wanted to be in the US market in the first place.

Mr. McFadden: I happened to be meeting with a group from Washington on this. There are several consulting firms in Washington. They are not management consultants in the traditional sense of management consultants; they are more engineers and former military people who essentially make a living working with suppliers.

They review the available tenders with them. They help them prepare the documentation and work with them to evolve their technology to fit it. They meet with various procurement officers to review with them the latest technological advances, pointing out the specifications that might be amended to permit a larger cross-section of companies to participate and so on. They have found that Canadian companies do not avail themselves of those services. American companies know about them, are actively involved, and consequently their whole market area expands.

The tendency of Canadians is to take whatever the government mails out, or even if they hear about it, and try to fit into it as best they can with whatever knowledge they have here and hope they are going to get something. They may drop down to Washington once to meet somebody to try to figure out if their tender was right.

It seems this is a good role for government, not necessarily to help them with the tenders but at least to conduct them to firms and so on that can really work with them. I know in Canada we are not used to that approach. Given the size and importance of what appears to be the market down there, American companies are utilizing that service. They know they cannot have enough people on staff to keep track of everybody or everything that is going on in Washington, but the various groups in Washington are available to help them. We are not on the scene, on the ground enough.

Dr. Donner: I agree. From our meetings in Washington, we were depressed by the fact that Canada has such a low profile. It is barely known that we are the United States' largest trading partner. We certainly have a low profile in the high-technology areas. It is as though Canada does not exist. Washington seems to be focusing its entire trade thrust against the Japanese, not against us. We do not exist in terms of the high-technology sector at all.

Mr. McFadden: It is a big untapped market.

Dr. Donner: Absolutely.

Mr. Mogil: It is hard for a small company in Canada to tap it. It is very expensive to send somebody to Washington for a week and pay for hotels, travel and lobbying in the case of a company that maybe does $1 million of business in every year. We cannot afford that "your man in Washington" approach. It has to be done by some other means. Perhaps government services, the

embassy, trade commissions and so forth could be that kind of catalyst.

Mr. McFadden: I recall one contract for portable latrines. It may not be high tech but some of the approach is. This is a major matter for the army, of course. We are moving into the high-tech area because they want to dispose of waste efficiently. It happened to be a Canadian company involved, and this consultant was very helpful and they landed a very considerable contract down there, with which otherwise they would not have been involved. I am alluding to a strange contract but it is nevertheless a human necessity, and the army wanted to develop a whole new technology to deal with it. A Canadian company wound up playing a role in it, but only because it retained somebody who could get it organized. The company would not even have known the contract existed.

I wonder whether I could explore with you the area of aerospace. In the aircraft area, we pretty much have free trade now. It is subject to certain high-tech specifications, but effectively we have free trade now in that area. I notice in your figures that in the one area where we probably get as close to free trade as we can, we seem to have a surplus, at least in aircraft. Could you review the rationale for that?

Mr. Mogil: Which page are you referring to?

Mr. McFadden: I was looking for it while asking the question. It is on page 2-8, "Ontario's Balance of Trade in High-Technology Products, 1983." We have a favourable balance in aircraft. If you look at the other page, you will notice that is the one area, outside of transistors and semiconductors where I know we have a deficit, where we have a surplus.

Mr. Mogil: In the case of the aircraft industry, we have some very good technology that is world class, such as engines for some of the smaller commercial and private jets. Pratt and Whitney, for instance, is a major player in gas-turbine jets. Over the years, we have developed a comparative advantage that is all ours and been able to exploit it. This is a very good story of the way Canada has been able to develop a particular product and find a niche for itself in the United States and other parts of the world. It kept pushing that product and pushing that niche until it became a major player in the area.

That is one source of our optimism about our ability to live in a free trade environment. Here is a free trade situation already operating now and we are doing pretty well in it, considering the big players in the United States, such as Boeing and McDonnell Douglas, and those in Europe. A good story can be told about this industry.

Mr. McFadden: To pursue that for one minute, how much of this is tied up with management and approach? There are several companies in this whole aerospace area, such as Spar Aerospace. It seems a lot of that was brought about by aggressive management people who went out there and built a market. Fleet Industries seems to be becoming quite aggressive now, and it has been doing

well in the United States in aerospace, defence and a variety of other things. How much of this deficit we have here across the board is a function of management and a conservative style that has not managed to turn it around, and how much of it is a function of government policy or the way we approach research and development?

I am trying to find out what it is. We have examples of companies with aggressive management, as you have mentioned, which are going in there and getting their markets; they are doing well and are competitive internationally. Then we have these other areas where we are not getting anywhere. I know this is gigantic and the subject of a study of its own, but can you make any overall observations on that?

Dr. Donner: I would like to cast an observation on the issue, but it is based on a very uninformed judgement. My impression is that, by and large, Canadians are as talented as Americans. I do not think there are any differences in the way we manage businesses and we are certainly well aware of all the most advanced business practices. The plain simple difference is that the scale of government procurement and support and research and development support in the United States is overwhelming compared to the scale of them here. It is much easier to be a success story in a huge growth market in that country than it is here.

Mr. Mogil: If you run your eye across that deficit, we mentioned aircraft as being in a positive trade balance, but in the office machinery sector, for instance, there are many foreign-owned companies, the large multinationals, and there is not as great an emphasis on R and D, development of products and aggressive marketing of them from Canada to the rest of the world. That might help explain some of that deficit. Management could be the same on both sides, but it is the mandate that management is given and the fact that ownership is not local.

2:40 p.m.

Telecommunications is very much a Canadian-owned and managed industry; for example, Northern Telecom and Mitel. There, you have pretty aggressive management going after US markets. Again, the deficit there is quite small. In certain parts, it is very much in our favour. You can explain some of it by management, some of it by ownership and some by the nature of the product and the trade world in which that product is being moved around.

Mr. Cordiano: It seems clear that Canadian-owned firms are having a far greater success in the high-technology area in exports or shipments on their books. You have mentioned a few of these firms. Is it your view that has a major impact? That is what we are saying here. A Canadian-owned and operated firm will be much more aggressive, export more and seek markets elsewhere.

Dr. Donner: I think the evidence supports that, yes.

Mr. Mogil: The evidence definitely supports that. The reason is that there is no other place to go than the United States. Canada cannot support a major telecommunications industry

in and of itself. It is just too small to get the kind of production sizes and so on that you need.

Mr. Cordiano: Along with that, it is beneficial for that kind of industry to expand in that fashion. With respect to some of these other industries you have studied, for example, office machinery and computers, electronic components and the others, what component of those industries is foreign multinationals? What is the makeup of those industries with respect to Canadian ownership vis-à-vis foreign ownership?

Mr. Mogil: I mentioned office machinery is largely dominated by the multinationals, IBM, NCR, Xerox and such firms as that. Telecommunications is much more Canadian-dominated. The chemical industry is mostly multinationals, but that is a different kind of industry because it depends more on worldwide markets rather than only US markets for survival. It has world-scale plants that have to survive. That is a different set of issues.

Mr. Cordiano: They are still not Canadian-owned.

Mr. Mogil: No, not sufficiently in that sense. Pharmaceutical companies, again, are owned by US facilities or multinationally owned. The scientific instrument industry is a mixed bag. A lot of Canadian companies are small. Some of the bigger US companies have subsidiaries in Canada.

There is some correlation between the location of ownership and the degree of aggressiveness in pursuing markets. The reason is that those who came here came to exploit the Canadian market, but did not really look beyond that either to Europe or the home market in the United States.

Mr. Cordiano: In your opinion, is that not hindering our economy from expanding, especially in the high-tech area? If we do not get ownership of our high-tech industries, how can we accomplish that goal of becoming world leaders in a fast-changing area such as high technology?

Dr. Donner: I agree with that observation, but you have to work with the world as it is. If you assume that foreign subsidiaries are going to dominate the high-tech industries, the question is, what can we do to encourage them or make them behave as their head offices do? You would think that, on balance, any high-tech subsidiary operating in Canada should have every interest in doing this in its own self-interest.

One of the key things we are discovering is that it depends on whether a firm has a world product mandate. It depends on whether the foreign subsidiary here has a mandate to supply products worldwide or whether it is mandated simply to supply the local home market. Obviously, if it is a Canadian home market mandate, there are very limited opportunities.

We were somewhat encouraged, though, to find quite a few firms with world product mandates. One of the factors that leaps out of this analysis is that governments should go out of their

way to encourage foreign subsidiaries operating here to move in that direction.

Mr. Cordiano: In effect, you are saying the trend is increasingly toward world product mandates. You found that in your study.

Dr. Donner: For larger firms, yes.

Mr. Cordiano: That is something we have discussed in this committee in the past with a great deal of concern, at least on my part.

Mr. Mogil: It is happening more and more, and we are doing some work in another context on this question of world product mandate. It tends to transcend this whole question of free trade. These companies are ignoring whatever trade barriers exist and saying: "We are going to put a plant in Ontario. It is going to service our entire worldwide network because it has the best location, the best labour, the best supply of raw materials and so forth." It tends to ignore these barriers and makes them seem almost obsolete, if not invisible. That kind of approach or attitude will turn the whole free trade debate on its end.

Mr. Cordiano: Maybe we should be doing that.

Mr. Mackenzie: This morning, Mr. Lazar's paper indicated the role of the Ontario subsidiary in the overall corporate structure determined its input into the planning process. If it is part of an operating division, it has little input at all. If it is a separate division reporting directly to headquarters, it has much more input and is much more likely to be involved in world product mandating. His argument basically was that about a quarter of the branch-plant operations were separate entities and had the ability to operate separately; three quarters did not. You indicated an increased move to world product mandating. Do you have anything that would indicate whether that three quarters-one quarter figure is changing? He said he had no indication of any particular move.

Dr. Donner: When we talked about an increase, it was an impression we received from our interviews; it was not statistically derived. I have no quarrel at all with the figures you have cited. However, from our observations, and I am not sure whether Mr. Mogil agrees, the larger high-tech firms are moving in the direction of world product mandates. That was the impression we got. The three quarters-one quarter split sounds reasonable.

Mr. Mackenzie: What percentage of our high-tech industry or what we might call that would be Canadian-owned as opposed to foreign-owned? Do you have figures on that?

Mr. Mogil: We have no definite figures. We did not really look at that issue in depth. We do not want to make a great deal out of it. There is some value in it, but be careful not to draw hard conclusions that ownership and sales are linked.

Mr. Mackenzie: However, you made the argument that there seemed to be less research and development, which is key,

especially in the high-tech field, if it were an American-owned as against a Canadian-owned company. That is why it is a valid question.

Dr. Donner: I think we may have it in the report, I cannot think of where at the moment, but if it is not, we can get the numbers for you if you would like them.

Mr. Mogil: I would add one small point: with respect to the mandate these plants have, that is where we are trying to draw a subtle distinction there to qualify that. If their mandate was entirely to produce for the Canadian market, there would be no reason to carry on research and development. That is what you were saying.

Dr. Donner: Yes.

Mr. Mogil: I would add that to your point.

Mr. Mackenzie: The Ministry of Industry, Trade and Technology did a series of studies on the software industry--computer programs and so on--which indicated a large potential North American market for Ontario businesses. I wonder whether this fits in with your analysis of the high-tech sectors and affects your views of our negotiating position. Is this part of the future?

2:50 p.m.

Dr. Donner: We have not seen those studies, but we agree this is one of the industries that should be on a very high growth curve at this time. In terms of what we can do to get a greater presence of it, that is probably a much more difficult point. I am not sure how it measures up.

Mr. Mogil: Canada has a very good software industry. There are a lot of bright people in it. The laws regarding copyright and other protective measures are not as strong in Canada as they should be, and there is a concern that if companies develop products, these can be easily pirated and lost to the whole system. The royalties are also lost. It is a concern of giving industry some protection in the interim to allow it to be able to reap some royalties from it for their services.

Mr. Mackenzie: If I read it correctly, you argue on negotiating strategies in point 6.2 that governments can create a competitive advantage for companies trading in high-tech products through their support of research and development and so on. That certainly raises some question in my mind about how. Does that mean additional tax breaks to encourage those American high-tech firms that do not seem to be doing as much as smaller Canadian firms?

Dr. Donner: You could create a comparative advantage through a number of means. You could try to increase sales domestically by direct or indirect government procurement. You could help create a comparative advantage through tax breaks or subsidies to research and development efforts. You could go the

protectionist route of tariffs or you could go the protectionist route indirectly by legislating standards that could be met only by Canadian firms. There are a variety of sensitive ways that governments could do this. All governments have a variety of approaches.

Mr. Mackenzie: Forgive me for being very general. We can initiate this kind of growth through, in effect, government procurement or protectionist measures in one form or another. If I heard the beginning of your argument correctly, you were saying that because our high-tech industry is extremely small, we should not hesitate to protect and promote it if it is one of the advantages. The difficulty I have in the overall picture is that we are taking a look at a very small high-tech industry with some potential. We have to protect or develop it while at the same time we discuss comprehensive free trade talks where we are supposed to be breaking down all these barriers.

Mr. Mogil: The point is not to protect; that is probably not the right word. It is to promote. It is to try to give them the right environment in which to work, and also not to elicit a countervailing reaction from the United States. If you give some help to Canadian industries, make sure it is in a form that does not lead to a countervailing duty from the United States and an international incident resulting from that. You can try to increase it by giving some procurement benefits to Canadians that do not lead to a US policy response that is equally negative.

Mr. Mackenzie: You do not see the potential danger when we are literally told that everything has to be on the table, even though we have already agreed that we will not talk with them unless we can exclude X number of items. Are we not negating the kind of argument that is made right off the bat by our American friends when they are talking to us?

Dr. Donner: Of course, I see a very severe danger in that. First of all, let me mention that I am not scared to apply the word "protect" to high-tech industries. The Americans do this. They do not call it protection; they call it the Department of Defense and the National Aeronautics and Space Administration. They do virtually the same thing. All I am suggesting is that we do what the Americans do. If we really want a presence in this industry, we have to do what the Americans do.

I agree that this sector is going to be very hurt if the result of a bilateral trade arrangement with the Americans is a reduction in our government procurement and support and perhaps not a reduction in government procurement and support for their counterpart industries in the United States. We are very much at risk, and this is why I argued in our opening statement that the interests of high tech should somehow be much more up front in this overall debate. I do not sense that they are.

Mr. Mackenzie: Should these interests be ahead of, for example, protecting the auto pact, which is an absolute must on everybody's list?

The problem I am having with this whole thing is that it seems to me to be a bit unreal. In almost every area where we see some growth or some possibilities, we are told that somehow or other it has to have some advantage, some incubation period, some protection or whatever the case is. At the same time, what we thought we were entering into gets more unreal by the day as far as I am concerned, and maybe that is just my perception. We call for a comprehensive free trade agreement, but the more we talk about it, the more we decide that we have to set up little barriers or protect certain sectors. I am not sure we are not literally--I am talking collectively--being a bunch of hypocrites.

Mr. Mogil: I do not think we are really advocating protectionism and putting a door in front of us on this thing. We are saying that some government involvement is necessary because all governments will be involved in this business. The United States is very heavily involved with business, and if we put on the table that all government support is pulled out, the United States will never buy that because it is so heavily involved. We should recognize that all governments are going to be in this business and just try to keep government involvement on an upfront, known basis where the rules are all clear. We can all go about our business, given those rules.

Mr. Mackenzie: I personally have no difficulty. There is a hell of a lot of common sense in content legislation, in additional auto-pact-type agreements and so on. I look at it for what it is. It is sure as hell not free trade. It may be fair trade, managed trade or any number of other things, but it is certainly not free trade.

Mr. Mogil: It is free, it is fair and it is managed trade. Everybody knows the rules and everybody knows how far he can go.

Mr. Hennessy: Mr. McFadden and Mr. Mackenzie mentioned, as you yourself did, the government being involved. There was a lot of discussion in this committee, particularly in the closed-door sessions, about the government opening offices here and there. There was a lot of talk about where offices should be opened to helping do trade with the United States of America. This seems to have died down to some extent. There does not seem to be the enthusiasm that I noticed before in this committee. I just wonder what your thought is on the matter of Ontario having offices in key cities in the United States.

You mentioned lobbying before. If a small business does $1 million in business a year, it cannot lobby because lobbying takes money, and therefore it cannot compete with the big guys. If the company had the protection of the government of Ontario or of Canada, it might have a better chance to get into that market, but it would have to make sure the government was behind it.

Dr. Donner: It seems eminently sensible to me that if we want to get our small companies into the export business, we have to lead them now, because financially they cannot support the introduction into the market. There is a lot of ignorance of the opportunities.

Surely governments have a role. I am not sure it matters whether the Ontario government does this directly or indirectly by subsidizing small companies to set up their own trading relationships. My sense is that Canada is not known as an aggressive trader in the United States. Certainly in the high-tech area, with the exception of a few of our large companies, we have virtually no reputation at all in that country.

Mr. Hennessy: This is another question, and you do not have to answer it if you do not want to; it is just my personal feeling.

The Premier (Mr. Peterson) has recently come out very strongly against free trade. Could this action not hurt this committee in its function? We do not seem to be as lively now as we were when we announced a while back that we were going to look into the free trade aspects of it. I am not the smartest guy in the world, but I am not the dumbest and I can tell there is a general difference between the way some of the players are playing now and the way they were playing before. Before, they were very enthusiastic; now some of them are waiting to see who is going to hit the ball.

Do you think that was not a right thing to do, if we were going to go into it as a committee--

Mr. Mackenzie: That is not fair, Mr. Hennessy. They did vote with you.

Mr. Hennessy: I have listened to your BS a lot of times. I accept it. I do not believe it, but I accept it, so you should listen to mine, and this is mine. You gave that opinion.

3 p.m.

Dr. Donner: Are you asking me whether I think it is a good idea for us to be in bilateral trade negotiations?

Mr. Hennessy: No. If you are going to institute a committee, I do not think the statement should be made by the Premier of the province that he is not for it. Personally I think it is a waste of time.

Mr. Chairman: That is hardly a fair question to this witness.

Mr. Hennessy: I am asking what he feels about it. He may have a feeling on it. It is a free country.

Dr. Donner: I have no comment on that.

Mr. McFadden: One of the things I think you would detect, and it obviously comes out in our questioning of witnesses, is that there is a bit of shooting down of straw men here and there during our discussions. One of the things you are recommending, which I assume would eventually be the position, is that we have trade discussions but be realistic about, first of all, the package of government programs in the United States at

both the state and the national levels. We go into negotiations with our country's position or point of view on the things we are going to protect; the Americans do the same with theirs. We are going to want to continue to develop these industries.

From your point of view, is that an unreasonable negotiating position for us to go in with? We have certain areas we want to protect and we recognize that there are certain areas they want to protect. It just seems to me that we can go ahead and develop a trade agreement with the other side that would open markets, but we do not, as a result of that, have to give up protections and things that are of assistance to our industry. I do not think the Americans would give them up, let alone us.

Mr. Mogil: That is the point we made in the end section of this document. The United States is as much a protected market for its own industries as we are, if not more than we are. Therefore, when we get into negotiations, the United States has as much at risk as we do. In such a case we can make a deal on the basis that we will each give up so much, but not everything, because there is too much at risk to give up 100 per cent on both sides.

Dr. Donner: Can I make an observation that relates to your question? We presume you are entering into comprehensive trade negotiations with the Americans; in other words, the word "comprehensive" means that everything should be, will be or potentially could be on the table. Therefore, I agree with you: It is a bad idea from both sides. Realistically, not everything is going to be on the table.

From my reading of the press and of the way things seem to be developing, we are really not into comprehensive negotiations; we are into what we started out to avoid, which is sector-by-sector negotiations. We approach sector-by-sector negotiations using a completely different strategy. I know from the work we have undertaken for this committee and for other groups that when one talks to the few Americans who understand the issue, they use very much a sector-by-sector approach. In the practical, real world we are living in, we are into sector-by-sector negotiations. It is a different process.

Mr. Cordiano: That approach was rejected by the Americans themselves. They felt it would not be achievable.

Dr. Donner: I know it was rejected.

Mr. Cordiano: Our committee has in effect said that we have to exclude a number of items. In our interim report we recommended areas we felt should be excluded. We feel that if we are going to have any kind of trade agreement, then we do have to exclude those areas. The Americans will quite naturally exclude some items from their agenda that they feel cannot be negotiated, and we are back to the starting point. It is exactly what you were just saying; we are going to have to look at it sector by sector.

Mr. Chairman: I wonder whether I could ask a few questions about the defence production sharing agreement. First of

all, we heard this morning that you had done a report for the Ministry of Industry, Trade and Technology on this subject.

Dr. Donner: Yes.

Mr. Chairman: Is it available?

Dr. Donner: I hope they will release it to you.

Mr. Chairman: Can you indicate to us some information, a little more perhaps than you have put in this report? Practically all defence production in the United States is protected by nontariff barriers. Is that a fair comment?

Dr. Donner: Yes, I think so.

Mr. Chairman: Is it fair to say that the great thrust of high-tech research and development has come with government help for defence production?

Dr. Donner: Yes, that is the case.

Mr. Chairman: Is it fair to say that the major reason is that they spend a lot more on research and development than we do?

Dr. Donner: Yes, it is because of defence as well as because of the National Aeronautics and Space Administration.

Mr. Chairman: In many instances we are not as interested in spending that kind of money on defence production. For instance, the federal government has indicated it is not prepared to be involved in Star Wars if that is going to be part and parcel of it. How do we participate in that aspect of high-tech industry without jeopardizing our own attitude towards defence?

Dr. Donner: It boils down to a bit of hard bargaining to achieve our own self-interest. We have the ability to tap more deeply into the United States market. I am told that the Department of Defense itself is a great supporter of Canadian suppliers and Canadian efforts in this direction. I suspect we could have done much better if the Department of Defense, which is ultimately the client, were the institution making all the decisions in that regard.

It is also in the US interest to have us sitting up here with a strong industry in high technology, because we are capable, low-cost suppliers and, presumably, in times of emergency we are around as well.

Granted, we do seem to have different defence philosophies. We are not only a smaller country; the proportion of money we spend on defence is much less than the Americans spend. Perhaps in our own sphere we have greater opportunities for domestic procurement than we have tapped.

Mr. Chairman: In essence, if we could, we should be insisting they put that entirely on the bargaining table.

Dr. Donner: I am not sure I would put it on the bargaining table, but I would want to elevate it in this sense. During the past 20 years, if you look at the numbers, there were certain times when we had surpluses in defence trade with the Americans and there were periods when we had deficits. Over the 20-year period it averages out to a deficit, but not a very large deficit.

Historically, we have done very well when the Americans are at war. We tend to develop surpluses because their capacity to supply defence products is limited. As it stands now, we are in a phase of our own limited rearming. These are large weapon systems and Canada does not produce large weapon systems that I am aware of. We tend to produce very small components of weapon systems. This is why one can predict that if our trade is measured under a defence production sharing arrangement, it will move more and more into deficit in coming years.

Mr. Chairman: In our interim report, we recommended that not be touched. Perhaps we should not have done that.

Dr. Donner: I am of mixed mind. I am not sure I have a strong opinion on that. Some people I talked to in government said: "Just keep it quiet. We have done better than we deserve." Yet, if you look at the statistics, we are slightly in deficit and we face a larger deficit in trade. My sense is, why try to pretend something is not there when it really is there? Let us face it openly. It was not a bad agreement in the past; surely it can be resuscitated to work better in the future.

Mr. Chairman: I have an inclination to raise these things or to suggest they should be raised at the bargaining table, perhaps with a view to our making certain that we have a lot of high-tech industry as exemptions to any agreement. This could be set aside as infant industry, which is what it still is in this country. I take it that is basically what you are endorsing here.

3:10 p.m.

Dr. Donner: Yes. Let me be a little straighter on this. The DPSA should be discussed. I do not know whether you want to call it on the table. It may not even require changes. I am sure Canadians are not aware of how important it is to us. They are not aware that it served us reasonably well in the past. However, as it stands in the present practices, we will slip further and further behind.

Mr. Mogil: The DPSA gives you a framework or an opportunity to penetrate the US defence market without getting the US Congress and others upset. You are doing it under an established framework; you are not just penetrating it from out of the blue. That framework is an excellent opportunity for you to blow continually into that market.

Mr. Chairman: Realistically, as you say in your report, they will never give us everything in defence production.

Mr. Mogil: No. However, we can nibble away at it or double our small percentage. An extra $100 million is small potatoes to them but it has a significant impact on certain industries in Canada.

Mr. Chairman: As long as they insist that we put everything on the table, perhaps we should insist that they put these things on the table and then take them off.

Mr. Mogil: They are as culpable in some of these areas as we are because of their US military commission.

Mr. Mackenzie: I want to continue questioning for one second the line of thought in which the chairman was involved.

Do you have any comments on whether we have a bit of an end run going on in terms of dealing with the Far East by building a couple of arms plants that may redress some of our deficit in Nova Scotia? The discussion has evolved very much on a federal level as to whether we should be using German or other money to build a plant in Nova Scotia to supply arms to the Far East.

That may not deal with our deficit in terms of the US, but it may give us a credit balance in some of our European trade.

Mr. Mogil: I do not know the issue very well; I have read it only in the newspapers. Therefore, I cannot give you much on that.

Dr. Donner: The issue is an important one in terms of whether you feel it is in our political interests to do that for international relations. I believe the Germans are asking us to put up a plant to get around their own laws, so it is a very serious political question. In addition, I believe we have a deficit in defence trade with the rest of the world. I cannot recall whether it is very significant, but it enters into the numbers.

Mr. Mackenzie: I have very grave difficulties with trying to redress our imbalances based on the world arms trade, whether it is with the Germans, the Far East or the Americans. I am not sure that is the way we should be going.

I want to go back for one minute to part of a question I asked earlier. I was talking about the extent of foreign and Canadian ownership in the high-tech field.

On page 2-14 of your report, there are two sentences on the role of foreign ownership that are significant. "In a 1983 study by the Economic Council of Canada, the research revealed that domestically controlled firms spend more on R and D per unit of sales than foreign-controlled firms, in some cases the ratio was as high as 15:1 in favour of domestically controlled firms....the higher the level of R and D, the higher the share of exports in high-technology."

The last sentence says, "Given that more than 50 per cent of assets are under foreign ownership in such sectors as machinery,

electrical products and chemicals"--that is one of the figures I was after--"the influence of nonresident ownership is a factor in explaining trade patterns."

I get the impression that you think the foreign ownership issue is a bit of a side issue or a diversion, and is not necessarily the major issue. Yet that not only supports your initial statement that a hell of a lot more research is done by Canadian companies, but also that we have a real problem because 50 per cent or better of our industry that might be classed as high tech is foreign-owned or branch plant. They are doing anywhere up to one fifteenth of the research and development the Canadian firms are doing.

Dr. Donner: I agree with your reading of the statement and I agree with what we have said in terms of those comments.

The position Norm and I are taking is as follows: whether you like it or not, you live in a world where much of our industry will be foreign owned. We do not feasibly see this changing. If we do not see this changing, what can we do to at least get foreign-owned subsidiaries operating in Canada to behave more the way their Canadian counterparts do?

One way is to try to encourage more Canadian-owned firms, and we would go in that direction. The other direction is what you do to encourage the subsidiaries to behave more aggressively in terms of export markets. I do not see an easy answer to that.

Mr. Mackenzie: We found that out very clearly. I have referred a number of times to the select committee on plant shutdowns and employee adjustment where we simply were not getting the research and development or the export market penetration by foreign-owned firms. I will ask you the same question I asked the previous witnesses. Does that not then say we have no alternative but to set guidelines for our ability to give some direction to foreign-owned firms as part of any comprehensive set of free trade negotiations? Otherwise, we will never get anywhere with them.

Dr. Donner: I agree with that.

Mr. Ferraro: I have questions of the consultants specifically with regard to table 5-1 on page 5-4, entitled "Potential Impact on Employment of Trade Liberalization in Canada."

When I read your summary, I gathered that a free trade agreement would in essence have a positive effect on employment. That is a safe conclusion based on what I have read to date in your report.

I have two questions. First, we have been told on numerous occasions, and you are aware of the fact, that by 1987, roughly 97 per cent of all trade between the two nations will be tariff free. When you look at the degree of tariff protection in Canada as of 1987, as illustrated on this chart, does it fall in that three per cent?

Dr. Donner: Yes. You have to remember that our high-tech

factor is so tiny that the 97 per cent figure--it is consistent, but I am not sure 97 per cent is the correct figure.

Mr. Mogil: I cannot vouch for 97 per cent, but--

Mr. Ferraro: Let us say in excess of 90 per cent.

Mr. Mogil: We are talking of an industry of 140,000 working people, as opposed to the rest of the economy of more than 10 million. The free trade that exists is in the raw materials that somebody then manufactures; minerals and that kind of thing. It is a very small component of the spectrum of output.

Mr. Ferraro: That is fair enough. However, you anticipate an employment gain in the five industries you studied?

Mr. Mogil: Yes, we do.

Mr. Ferraro: I have a final question. In the chemical and scientific instrument industries, when you take your last column, "Changes in Employment due to Greater Access to the US Markets," I need an explanation as to how there could be no change. I find it difficult to understand how you could have--

Mr. Mogil: With the chemicals, you have major blocks of trade going both ways, and you have two countries each suffering already from excess capacity. Even if you move to remove those barriers, each market cannot absorb many more imports because it is already supplied heavily by its own domestic market. The US cannot absorb many more Canadian products and vice versa. We do not see the market expanding because of free trade in our industry because those two markets suffer from a worldwide glut of capacity.

Mr. Ferraro: Are our production costs that much more expensive in the chemical and scientific instrument industry to negate the differentiation in the value of the buck?

3:20 p.m.

Mr. Mogil: I do not think it is the price so much in the chemicals as it is a volume or supply problem. There is just too much capacity worldwide. Dropping the prices does not mean you will get any more demand because every country has world-scale facilities operating, and they are not operating at high enough capacity. The tariffs there do not operate to block trade. Trade is being kept at a certain level because there are other competing sources from Japan--

Mr. Ferraro: What I am trying to get at is, if you removed--and I will take it to extremes for the purposes of my question--a 12.5 per cent tariff barrier on the chemical industry and a 17.5 per cent tariff barrier on scientific instruments, would you not have, in essence, a positive effect if you had greater access? You are saying there would be no change. If you removed 17.5 per cent, would you not have a little bit more of an advantage?

Do you understand what I am saying?

Mr. Mogil: I do not quite agree with what you are saying.

Mr. Ferraro: Help me out, please. I am confused.

Dr. Donner: Why would we have an advantage if we reduced our tariff, unless we can get an advantage going into somebody else's market?

Mr. Mogil: You see, by reducing our tariffs, we are losing--

Mr. Ferraro: I am making the assumption that if we reduce ours, they will reduce theirs, and their essence is zero.

Mr. Mogil: Yes.

Mr. Ferraro: If it is negligible--there are no tariffs--and we have a 30 per cent differential on our dollar and greater access to the market, I find it difficult to grasp that our commodity would not be much more inviting to American consumers.

Dr. Donner: May I jump in? Let me go back to what Mr. Mogil pointed out originally. There is so much excess capacity worldwide. Since this industry is not all that footloose, it is not going to move. The dominant feature over the next five years, or even 10 years, is the problem of worldwide overcapacity. We could reduce our currency but we would not see industries shifting. We would not see demand necessarily shifting into the Canadian situation.

Mr. Mogil: In the scientific instruments, it is not so much price that we are up against.

Mr. Ferraro: It is because nobody wants to buy.

Mr. Mogil: It is that. Also, we are new in some of the industries; we are not proven. We have to get a track record. You do not want to buy a new machine from a brand-new company if you cannot be guaranteed that the company will be around in a year to service it. If something goes wrong, who will be liable for it?

In the scientific instruments area, there is a real concern that we are just starting out and we still have small companies. The Americans say, "We are not confident that you guys will be in business two or three years from now." Lowering our prices through a tariff reduction or by a drop in the Canadian dollar is not sufficient to generate a big increase in sales. The sales are determined by things that are not related to price.

Mr. Ferraro: Okay. Thank you.

Mr. McFadden: I have a couple of questions. First is what it takes to advance a company in this field. Clearly, the concept that has to be endemic to high technology is a fair degree of brain power and the approach by management to exploit the brains. This is not an industry that is dependent on muscle power and brawn.

Mr. Mogil: Or natural resource based.

Mr. McFadden: Or natural resource based at all.

With respect to that, given the fact that we are facing increasing competition worldwide in the area of natural resources and a declining market, it is very clear that this is an area we will have to move into more heavily if we are going to have much of a future at all. Some of our traditional industries are under very serious attack today and they look as if they are in for a long-run decline rather than a short-term blip.

In addition to government programs that you can create, the other characteristic, and you allude to this in your paper, that leads to the development of high-technology industries is a community of knowledge, a feeling that you have, in a certain area, the kind of synergy and critical mass intellectual energy, if you will, that will allow these companies to grow and then to spin off.

One characteristic of this industry is the incredible amount of spinning off, the little bits going here and there. That is endemic to the software industry, but it is endemic to a lot of the high-tech industry. You have to create the atmosphere for these people to grow.

What struck me about it was that it is not so much financial although, obviously, you have to be able to make money. Canada has a sufficient attitude, there are sufficient market opportunities in Canada and the United States, to offer that, but it seems one of the critical things is that whole intellectual and economic atmosphere.

For example, if we were to move away altogether and become very protectionist and develop a Canada-first policy that was not particularly open to cross-pollinization with the United States or other jurisdictions, would that be a positive or a negative in an industry of this type?

Dr. Donner: In this industry, it would probably be regarded as a negative in the sense that, as you noted, the industry requires highly talented scientists and people such as that, who tend to be located in universities. Often you find firms springing up from university people who then move into the private sector.

To back up one step further, since educational spending is in their bailiwick, governments at the provincial level might want to think about ways in which they could facilitate this spinning-off function of good academic research into commercial research and high-technology production.

Mr. Mogil: We got started in this business through the experience of the Ottawa Valley. Many of the companies there now were started by people who worked with the National Research Council or Bell laboratories at one time. They took some of that technology and some of their own ideas, set up small companies and wedged a little foothold somewhere in the market. It was the

culmination of government research and the private sector working together to foster an industry along that belt. That is the kind of combination Dr. Donner is suggesting right now.

Dr. Donner: The American experience has been that an industry springs up around governments and/or around universities. That might lead us to wonder whether we should be supporting the view that, although we have 10 provinces and many universities, there may be a way we could concentrate the synergy and the mass into fewer centres. The Ottawa Valley stronghold is very strong; we should have more, but maybe we should not have 10 or 20 more.

Mr. McFadden: The role of government is to create the right atmosphere for the intellectual activity to take place and then let it go. Clearly, it seems you must have an atmosphere of expansion and reaching out, not only across the country but also around the world, to get the right atmosphere.

Dr. Donner: Atmosphere and markets. If you look at the success stories of some of the aspirers, especially some of these other countries' companies, and at government procurement policies, I am sure they had a lot to do with getting them off the ground.

Mr. McFadden: I have one final thing now. I think the committee is winding down; it is Friday afternoon.

I wonder about global product mandating. I will give you an example with which I am familiar in the chemical business, Specialty Chemicals Ltd. This Canadian company had grown to about $20 million in sales per annum and did not export a dime. The Canadian management did not feel it had either the ability or the energy to expand into the American market and was worried that if it did not, the company itself could start into a decline.

As a result of all this, the Canadian owner sold to a British company which has taken it over. The company is still run by Canadians, and now it is exporting. It is approximately doubling exports every year. The first year it was up to $500,000 and this year it is up to $1 million, almost all in the United States. The plan is to keep moving in that direction.

3:30 p.m.

I do not know whether that is common everywhere, but I thought that was an example of taking foreign capital and knowhow. They did have knowhow in terms of export markets and knowledge of international markets and they became involved with a Canadian company and have given it a tremendous shot in the arm. It has not only kept the company expanding but also given the Canadian management a whole new lease on life.They now have a far bigger future in terms of their own management and what they are going to be able to do than they could have had before. I am curious to hear your reaction. In your research, is that totally atypical or have you run into it in other instances?

Mr. Mogil:: I think we have. We report a survey that was done by the Canadian Advanced Technology Association, the

association for high-technology companies. All the companies in that survey were very positive about how they can move into the United States, given the opportunity. They often cited cases in which they could double or triple their markets just given that opportunity.

At the same time they are very small companies. Most of them are under $5 million in volume and they do not have the time or resources to go to the US and make the kind of lobbies they need to get new business. I am sure the behaviour of this company is duplicated elsewhere in the economy and I think it is not atypical.

Mr. Chairman: Thank you. Does anyone else have any questions?

Thank you very much, sirs, for your assistance to us this afternoon and for your very comprehensive report. It is obviously going to be of great use to us, and we hope to a few others who read it, in trying to ferret out the problems we should be looking at as this debate continues. We may want to call on your continued help in some way or other, if it turns out we want to ask you more questions as time goes on. Thank you very much for being with us today.

As I indicated at two o'clock, we have a few housekeeping matters we should deal with today. Apparently, we have to pass an entirely new budget for the fiscal year commencing April 1, even though some of our money is not yet spent. Mr. Arnott has prepared a budget which has been passed around. It is essentially based on the budget that dealt with the first 14 weeks of our hearings, with allowances for the new per diems. I am prepared to hear a motion.

Mr. Cordiano moves, seconded by Mr. McFadden, that the budget be passed. Is there any discussion?

Motion agreed to.

Mr. Chairman: There has been discussion in committee, I think in camera in December, about advertising. At that time, it was expected that we were going to have more time during the spring break than will be the case.

I indicated this morning that we have at least 13 witnesses lined up. There was a discussion at the subcommittee meeting at noon about approaches to further witnesses. It was the consensus of all to approach the nine areas set out in our interim report that we indicated we will be working on, and to approach those in categories and deal with them, putting our witnesses together as well as we can and seeking out new ones who might be of some assistance to us in various areas.

I understand yesterday in camera there was some discussion about having Mr. Baranson here, looking particularly at other alternatives to the United States and perhaps finding some witnesses who could be of some assistance in that regard, and also looking at the General Agreement on Tariffs and Trade round more closely.

In view of the fact we have limited time in April and we have specific areas we want to look at, it has been suggested we not advertise any further. I bring up the question because in December we talked about advertising and about a trip to the north occurring at this time. I am still open to the committee directing us in that regard, although I think the subcommittee was of the view that, with the short time we have in April, it may not be of great value to advertise at this time and it may be difficult to make another trip to the north.

Mr. Mackenzie: On reflection, given the short time, I do not think we need to do any general advertising, but could it not be left flexible enough that if there was an advertisement needed for any specific area or trip, it could be left in the hands of the chairman or the chairman and the subcommittee?

Mr. Chairman: We can certainly take that flexibility into our understanding. I notice there is money for advertising in the budget we just passed.

Is there anything else that should be stated on the record at this time?

Mr. McFadden: The other thing we might do, which I assume we are going to do, is to follow up with some people who have not replied to see who wants to come. That will probably use up our available time.

Mr. Chairman: Yes.

Mr. McFadden: Either formally or however we want to do it, we might have some meetings with people in the private sector, particularly business people, to discuss with them in an off-the-record way some of the points that were made by Professor Lazar and others about investment plans and how people might react to the idea of a free trade or some sort of trade arrangement.

You are probably going to find it impossible to have someone show up here, with the press and for public record, and take his company apart for public view; not least because his competitors would be interested to hear all about what he has up his sleeve. We might be able to have off-the-record discussions with business people who would be prepared to sit down and review with us their personal observations of what is going on and give us more detail in terms of investment plans, motivations and so on. Some might be quite frank with us.

I raise this, and perhaps you, Mr. Chairman, or members of staff might be able, over the next couple of months, even though we are not sitting officially as a committee, to have some informal gatherings with people of that nature, either at lunch or dinner. I would find that interesting, and I am sure members of this committee might find it so.

Mr. Hennessy: It is worth looking into.

Mr. Chairman: Mr. McFadden mentioned that to me very briefly at the conclusion of the subcommittee meeting. It is an

excellent idea, if the clerk will confirm we can do it on budget with regard to luncheons or dinners. I mention that because we all have to be here in the next six weeks on various committees and that seems to be the time we would have free. If that is possible, we will certainly look into it. Perhaps any members of the committee who wish to do it can discuss particular people they would like to have invited and we could go ahead and do that.

Is there anything else we should discuss? We will see you at those dinners and in April.

The committee adjourned at 3:41 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, APRIL 9, 1986

Morning Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Hennessy, M. (Fort William PC)
Knight, D. S. (Halton-Burlington L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitutions:
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes
Laughren, F. (Nickel Belt NDP) for Mr. Morin-Strom
McLean, A. K. (Simcoe East PC) for Mr. Hennessy

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

Individual Presentations:
Dungan, Dr. P., Policy and Economic Analysis Program, Institute for Policy Analysis, University of Toronto

Simeon, Dr. R., Director, School of Public Administration, Queen's University

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, April 9, 1986

The committee met at 10:10 a.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: Welcome to the select committee on economic affairs.

We have a lot of work ahead of us before we do our final report. Because of the problems of scheduling, not a great deal of that work will be done this month. Perhaps it is something we can discuss shortly, but the question of whether we can have our final report completed by mid-July is quite moot at the moment. I do not think it is at all necessary that it be done by the end of July. As far as I understand, it may be the case that if we work through the summer, we can have it done by the end of the summer. As most of you are aware, the ongoing debate is such that perhaps it will be of greater value if it comes out later than sooner.

The rule changes that are being profferred right now suggest we might have some time available for some activity during the session. It has been suggested that we could meet on Mondays in the morning or evening. I am not sure why they have mentioned Mondays. Mondays might be difficult for some people because of travel arrangements.

It seems to be necessary that we get back to some communication with the federal government shortly. There may be some need to meet in Ottawa again some time during the session. Obviously, a Friday would be the logical day to do that. I do not want to open up matters for that sort of discussion this morning if we can avoid it. Perhaps the party representatives can meet shortly and discuss the nature of how we will attack the future.

What we are really going to do this week and next is deal with some of the matters that were left outstanding after our report was done in November. I think it is best if we get on with that today. Included in the material handed to you is the report of Professor Peter Dungan. Also included in the material is a report prepared by Mr. Traficante comparing the papers by Professor Dungan and Professor Harris. I bring that to your attention because you might wish to leaf through that while talking to Professor Dungan.

You will recall that Professor Dungan prepared his report for this committee in the fall. It was distributed to the committee in October, at a time when we were extremely busy. We probably did not give it the attention it deserved at that time. Now is the time to give it that attention and question Professor Dungan on it.

Professor Dungan, I welcome you to the committee. I do not know whether you have any opening comments you wish to make. If so, perhaps you could express them now.

Dr. Dungan: It was suggested to me that some opening comments might not be a bad idea. I will try to keep them brief. If there are serious questions of clarification along the way, I will be happy to entertain the

interruptions as long as I can say I will deal with them a little later in the presentation.

Very briefly, we start off the report with a creative oversimplification--we hope it is creative--dividing the problem of analysing the potential impact of a free trade arrangement into two parts.

The first one is the question of the restructuring of the economy that could occur thereafter, the rationalization of industries, perhaps the elimination of some sectors or subsectors and the growth of others. This is the area where the greatest gains to the economy are likely to come from any free trade arrangement. Of course, they have to be shown to offset the costs of the restructuring, which are not likely to be small. As far as I am concerned, the question of restructuring is the major problem in the free trade area. However, that is not the one with which I will be dealing.

The second aspect of a potential free trade treaty is that it is a major fiscal policy change. It involves a major cut in a particular indirect tax that will have implications for prices, potentially for the exchange rate, for exports and imports, for the tax take and the income share between governments and the private sector. Just like the major tax changes that are introduced in the federal or provincial budgets, these are worthy of study on their own.

That is the issue we address in our paper. It is not so much a question of restructuring. You might ask why we have to go about it this way. I would be interested to see Mr. Traficante's paper comparing the two model results. In my opinion, unfortunately the two different tasks require different tools. On the one hand, for the key restructuring question, you need a model that is specifically designed to look at those issues. The best such model around is that of Harris and Cox which apparently you have already studied.

If you are looking more at fiscal policy issues and especially if you are concerned with their phasing in over time and what they would do in the next few years and not just once all the dust has settled, then in my opinion you need tools called macroeconometric models. They have been specifically designed and built over the years to study macro policy. We have such tools at the University of Toronto, which is the reason we were approached in the first place. We have been doing this kind of modelling for almost 15 years at the University of Toronto and have developed a lot of experience in modelling budgets and in examining and describing the potential impact of major fiscal policy innovations, which is the aspect of the problem we have been addressing here.

That is our part of the problem. We are not dealing so much with the question of restructuring. Indeed, our tools cannot handle that. However, we can deal relatively effectively with the fiscal policy impact of a potential free trade treaty. While I do not think it is the most important aspect of this question, nevertheless it is an interesting adjunct and it has some things to say which this committee might be concerned about in terms of what the final arrangements for free trade would consist of.

I do not know if there is much point in going into detail on the model itself. Very briefly, it is a representation of the economy as best we can put it together. It is created through statistical fitting techniques so it depends very much upon what the economy has done in the past up to the present. It is built on the past behaviour of the economy. It allows us to trace through the economy the various chains of causality and feedback. If a tax is changed, it affects personal income and prices; those affect exports

and imports; those feed back to income; they may affect the exchange rate; the exchange rate affects prices; that affects income, and so on.

By laying this out in a series of equations on the computer, we are able to keep track of all these changes of causality and analyse them. In a sense, we are able to do more than the human mind itself in terms of keeping track of them all at once and coming up with some final impact.

We begin with a scenario for the economy for the next 10 years, 1986 to 1995, in which there is no free trade agreement. Then we simply impose our best guess on the model as to what a very general free trade agreement would look like. We re-solve the model to see what the economy would look like with free trade and then we look at the differences. Primarily we are concerned not so much with the level of the economy in either case as with those differences. They are the measure of the impact a potential free trade treaty would have on the economy.

Also with these tools, we can play alternative scenario games very quickly. In other words, we can ask, "What if the monetary policy response to this shock was different? What if we did different things with the exchange rate? What if there was a productivity impact, a productivity response?" One of the nice things about having a systematic model of the economy sitting on a computer is that it is very easy to generate these alternatives. We generated five for this particular study, but more can and will be generated if the committee so requests.

Before I get into describing the scenarios and some of the lessons in a little more detail, let me mention the list of caveats we put into the paper because it is important to understand the limitations of this research.

The first and perhaps the most important one is that we are not addressing the restructuring issue. We do one scenario in which we take the bottom line of Harris and Cox for what the restructuring might mean and put it on the macro model. However, we are not generating that result ourselves. We do not have the tools to do it. We are only looking at the potential elimination of tariffs. We have not looked at the question of eliminating nontariff barriers at all. Because ours is an aggregate model of the economy, we have not been able to pay too much attention to particular sectoral differences. It is obvious a free trade treaty will hit some sectors more strongly than others. Since ours is an aggregate model of the economy, we are dealing with the average along the way. One always has to be careful in dealing with averages.

The method of analysis is subject to some criticism. When things are done with these models, it is often remarked, "Your model is based on the past and we are talking about the future. The future is going to be different, so what can your model say?" Our feeling in response to that is a lot of past behaviour does not change very quickly. It may be true we have to be careful in certain particular areas. The world is going to look different in the future than it has in the past, but many things from the past 20 years such as a propensity to import or to consume out of consumption are unlikely to change drastically during the next 10 years. We put mental confidence bands around the numbers we get out of these studies--in other words, I am not trying to say that number is exactly what is going to happen--we say it is in a range. We are trying to get an order of magnitude, a feel for the data. As long as we are carefully cautious that way, using the past statistical relationship into the future, allowing for all the causality and feedback, it will not be too bad.

A fourth caveat is that the model is grounded in mainstream economic theory. It is not a completely Keynesian theory although it has elements of Keynesianism. It has elements of what economists call the new classical theory in it as well. For example, it is grounded on a view of the world in which, given enough time, imbalances in markets will tend to clear themselves away. The market mechanism will work. That is an assumpton on which the model has been based.

10:20 a.m.

When we go to the data for the Canadian economy, we find the data do not reject that assumption. The data are not telling us that is not true. None the less, to some extent the idea that markets do work and clear has been imposed upon the model in the way it has been constructed. To some extent, if my results show we have a shock and the economy responds to settle itself down again, that is no surprise. The model was built on the idea that would happen. The rabbit goes into the hat there and I pull it out at the other end.

Finally, I should point out as a caveat here that our Ontario results, as opposed to our national results for these studies, are generally less precise. We have a model for the Ontario and provincial economies which we have also used, together with our model for the national economy, to do this study. Because we were not able, with the time and resources we had, to take too great account of the different sectoral impacts of free trade, and since the Ontario results are strongly built up on sectoral impacts, I would say that the Ontario results, if you like, are only impressionistic and that the most important results that we got out of the study are those for the national economy. Mind you, they are of obvious importance to Ontario as well because the macro-economic impacts are going to spill over to Ontario no matter what.

With those caveats in mind, briefly, we did five scenarios. Each of them involved in effect cutting our tariffs with the United States and the United States cutting its tariffs with us, virtually to zero, phased in over two or three years. We arbitrarily started at the beginning of 1986. Of course, that is not going to happen, but the main thing to look at are the years ahead. If we started this a year or two later, it would not make very much difference for the impacts.

In the first scenario, we did not allow the Canadian exchange rate to change simply because we wanted to see the balance of payments implications of this indirect tax change in removing the tariffs. We know they affect the macro-economic impacts of the model very quickly.

In the second scenario, we did let the exchange rate respond because it turned out that the first scenario generated a serious balance of payments deficit, not surprisingly because our judgement in advance was that Canadian tariffs on the whole were going to be slightly higher than the American tariffs that were going to be cut. That is open to some debate, actually. In that case naturally, if you take them away and before anything else changes, there is going to be a tendency for Canada to import more, relative to what it is going to export to the United States, until some kind of secondary adjustment in prices or exchange rates takes place. I think that is one of the important results of this study.

In the third scenario, still with the exchange rate floating, we looked at what would happen if price responses in the Canadian economy were a bit more sluggish. One of the areas of economic theory that is a bit up in the air today is the question of how quickly prices respond to changes on the cost

side. Is the market so efficient that they could pass through into final consumer prices very quickly or, on the other hand, are industries relatively concentrated and oligopolistic in such a way that in fact what happens is that profit margins move a lot first and only gradually do you see savings in costs get passed through into final user prices? It turns out that it does not make as much difference as we thought it might, which assumption we take here, but we thought we would look at the issue.

When the federal government cuts its tariffs to the US, that is a major tax cut and it costs the federal government a lot of money. In the fourth scenario, we look at the idea of the government trying to get back that money by way of personal taxes, given the concern about the deficit. We wanted to look at what would happen if the government actually tried to undo the fiscal stimulus that it gives the economy when it cuts the tariffs by raising another tax in response. Of course, there are many different responses they could take.

Finally, in the fifth scenario, we take an estimate from Harris and Cox as to the potential gains in productivity for the Canadian economy, that is the potential gains in final gross national product for given inputs from the rationalization that would make the economy more efficient. We imposed those on our model just to see what it would look like because Harris and Cox's model can basically only tell you: "All right, once the dust has settled, here is what the economy will look like. Here are the gains we can expect."

What is lacking to some extent in their model--I hope I am not oversimplifying too much here--is a kind of time frame. How long and over what period? What will the economy look like when we get from here to there? We have tried to give something of a picture to that by taking their notion of what the final results might be and phasing it into the economy over a 10-year period. You do not even allow the full effect to take place over 10 years. We allow for only a three per cent increase in GNP over that period, where their estimate is somewhat higher than that.

Those are the five scenarios we ran. The figures, the impacts for GNP, exchange rates and so on, are in the paper. I think it might be most efficient for me not to go over the numbers as such but to, in a sense, draw my conclusions from the study. The things I would conclude from the study are not by any means the only things that could be concluded. In other words, this is my opinion of what the results of the model indicate might be important issues to think about in terms of free trade as a macro-policy, not so much as a restructuring policy but a macro-policy.

I am always little cautious here because I like to think of it as my job to get the model to run and to show you the outputs and let other people draw the conclusions. I am a little too wrapped up sometimes in the mechanics of actually getting the thing to work and whatever to sometimes see the forest for the trees, but anyway, here goes.

The first issue is that if a free trade treaty is initiated, the tariff cut involved is, in and of itself, aside from all the restructuring issues, a major fiscal stimulus. It amounts, in the later 1980s at least, to between $3 billion and $4 billion a year in tax cuts and that is no small amount, even in comparison to current federal budgets and whatever. It gives a fairly hefty boost to the economy just as an indirect tax cut, again aside from any questions of restructuring, just like any other indirect tax cut really would.

If the federal government decided, in a sense, to give back the same amount of revenue through cutting the manufacturers' sales tax, or whatever,

it would obviously have different implications for the balance of payments. That would also cause a major stimulus, at least for the next few years, in the gross national product and perhaps also on inflation and so on. This is an indirect tax cut, in some ways like no other, except it has special implications for trade and one that gives the economy a certain boost in and of itself.

One of the things one can conclude from that is that if it is not offset, there is a certain kick to the economy that will occur from this policy that in a sense might help to tide over the rough period of adjustment. In other words, instead of a period of adjustment being dumped on the Canadian economy, at the same time there is also a boost to demand. That extra demand might help certain industries at least to, in a sense, phase in their restructuring or make the restructuring easier. Other industries might find the situation of increased demand makes it easier for their transition to occur.

Mr. Cordiano: May I ask a question?

Dr. Dungan: Sure.

Mr. Cordiano: You are talking about a tariff cut. As we are all aware, tariffs are much higher on our side of the border than on the other side. Therefore, what would be the net effect of a tariff reduction going both ways? Would it be of benefit to us or of benefit to the Americans? It would have to go both ways.

Dr. Dungan: There is nothing in a US tariff cut as a fiscal policy. If the US decided unilaterally today to cut tariffs, it would not matter even it were to us particularly. Any other indirect tax--let us suppose social security contribution taxes--would be a fiscal stimulus to the US economy that would probably have some positive benefit to Canada. We would be able to export more to them.

By the same token, if we unilaterally cut tariffs or the manufacturers' sales tax or whatever, that would be a fiscal stimulus to us that would actually spill over a little bit to the US because they would be able to export a bit more to us. In other words, we would not spend all the tax cut, if you like, exclusively on Canadian goods. We would spend some of it on foreign goods. Some of it would dribble over to third parties.

Mr. Cordiano: You are assuming all things being equal in that sort of tariff reduction.

Dr. Dungan: Yes.

Mr. Cordiano: You cannot measure the effect that enhanced competition will have as a result of the tariff reduction.

Dr. Dungan: No. Again, I am extracting from that. That is what you need the Harris and Cox model for. There are two ways of looking at the competition. A tariff cut makes our industries more competitive.

Mr. Cordiano: That is debatable. If it is something done over time, I would tend to agree with you, but if it is done with a short period of lead time, then it is debatable. It is arguable.

10:30 a.m.

Dr. Dungan: Also, do not forget that in the model here, there are two ways of taking this competition thing. One is the restructuring that would occur as a result of it, but this model fully takes into account the fact that when you cut the tariffs, as I was saying, it is not an indirect tax cut exactly like every other. Because it affects the price of imported goods, it is going to tend to stimulate those more than would a manufacturers' sales tax cut for sure and the model takes that fully into account. But, none the less, because the government is not taking that chunk of money away from consumers, they have extra to spend, too. There is some fiscal stimulus that will occur.

There is an offset which also occurs in the fact that, say, Canadian firms which have to import goods to produce their own goods for export or import competition, themselves also face lower prices for those goods.

Mr. Cordiano: But within six months of that occurring you may have major layoffs in a number of areas. That is where we are incredibly vulnerable, especially in imported goods such as shoes, etc., and down the list. We would have massive layoffs if we were not able to overcome that price sensitivity with regard to foreign imports.

Dr. Dungan: That may be true. All I can say, in the capacity that I am here in, is that our analytical tools tell us that on average, again there may be winners and losers, the net gains in terms of the gross national product from a tariff cut done mutually is positive, especially if--and this is a big "if"--you let the exchange rate move to clear out the balance of payments discrepancy that results from it.

Mr. Chairman: I wonder if we can let Professor Dungan finish his set before we get into--

Dr. Dungan: We are into the nitty-gritty here. This touches exactly on the caveats that I raised. Okay, I will speed ahead here. The conclusions, such as they are, are subject to debate. There is no question.

According to our results, considering there is a pure fiscal stimulus, in other words, we do get a positive GNP boost out of this which may serve to help in the period of transition, it may not be big enough. It may be a whole order of magnitude away from the costs of transition, but that is not what I can talk about.

A second issue that is very important to realize, and one trusts that the federal government has realized it, is that unless we have an offset there is no question but that a free trade agreement will tend to make the federal deficit worse. To the extent that the economy may grow afterwards, the loss to the federal government may be offset to some extent; to the extent that the economy may mark time for a while, it might even get a little worse, especially if there are major sectoral changes which could cause temporary upsurges in unemployment insurance payments, or whatever.

In effect, when they cut tariffs to the US, it is giving up $3 billion to $4 billion more in the later 1980s and early 1990s of revenue that it might otherwise have had and which, in a sense, is included in Michael Wilson's current budget. So if the federal government is concerned about the deficit it is going to have to think about this. If it raises another tax to offset it there may still be a small, positive fiscal stimulus left over. But most of it naturally goes away because most of it is coming from the fact that this is a tax cut.

So while I tell you on the one hand that in and of itself a tariff cut can give a positive boost all by itself to the economy, which might be helpful in a free trade arrangement, if the federal government is worried about its deficit, and tries to take back all that money again in a different way, most of it will be undone. Indeed, if it tries to do it through another indirect tax change, I would recommend the way to do it is not through an indirect tax change. If it tries to do it that way because it thinks it has pushed personal or corporate taxes as much as it can, and it cannot cut government expenditures any more, then it would all be offset. It would all go away.

So there is this issue of what the federal government intends to do about the deficit widening that a free trade issue will cause. It has to confront that issue.

The third major lesson here is that it matters what the Bank of Canada allows to have happen to the exchange rate, which is basically within the Bank of Canada's and the federal government's control. Almost surely, since our tariffs, as you point out, are bigger than those of the US, and we are going to have to cut more than it will, the initial effect is going to be a balance of payments deficit for Canada, a balance of trade deficit.

There is nothing particularly wrong with that as long as we let the exchange rate adjust, and our results indicate that it might be a couple of cents or more, to offset in a sense that differential. If you allow that to happen that emphasizes the boost that you get out of the fiscal stimulus. I am not one of those people who believe that the honour and the dignity of the nation are involved at the level of its foreign exchange rate, or whatever. It is unfortunate sometimes that rhetoric approaches that which one occasionally hears from the Latin American or less developed countries.

The exchange rate is simply a rate of exchange between two national currencies. If you have a structural change, there is no reason to believe that price should not somehow be one of the prices that changes. It says nothing about confidence in the country, or power of the country, or whatever, that the exchange rate moves either up or down. Up is not necessarily good; bad is not necessarily down.

It will be important to watch what the federal government prepares in negotiating for a free trade agreement. The federal government is preparing the people of Canada for the possibility that the exchange rate may have to depreciate a bit. That does not indicate a lack of confidence in Canada, or that the free trade agreement is failing, or that investors are suddenly thinking the free trade agreement will not work. It will simply be a natural adjustment that occurs because we have lowered our tariffs more than they have lowered theirs.

If, however, the government feels that, for political or other reasons, it cannot let the exchange rate fall then the only alternative it will have, because it cannot do it out of the Bank of Canada's reserves, is to raise interest rates.

I did not do that scenario with the model. If I did, I know that virtually all my fiscal impulse would go away. In fact, things could go the other way if the federal government also tried to get the money back from the tariff cut. In retrospect, perhaps I should have done that scenario. I do not think it is likely that the bank would do that but, again, I may be hoping too much.

If the Bank of Canada responded to the likely downward pressure on the exchange rate by raising interest rates, we would be hitting the economy with a problem in raising capital to do the restructuring which might be required to get the full benefit from a free trade arrangement, and we would probably be undoing most of the fiscal stimulus that comes from the tax cut in the first place.

Mr. Mackenzie: Excuse me just a minute. Are you saying that two additional caveats in your paper should be whether or not there are tax measures taken to offset, and whether or not there is an exchange rate decision that has to be made, because both of them could throw the benefits that show in your paper into the proverbial cocked hat?

Dr. Dungan: I do account for one of them. Scenario 4 looks at the tax offset. I should have done the alternative scenario. Maybe I should do it. Perhaps I could arrange to do it in the next little while. It is very easy to do in the model. I just change a little switch somewhere and say the Bank of Canada responds by raising interest rates instead.

By caveats I meant the concerns you could have with the method I used. These are more lessons that I am drawing from having operated the tool. I know in advance what the results would be if I tried that scenario with tight money. It would be that most of this effect would go away. That is for sure. I regretted when I was preparing my notes that I had not done the scenario at the time. Not that I think it is likely; I do not think the Bank of Canada would do that.

Mr. Laughren: Have they not done that recently though?

Dr. Dungan: They have done it recently. That is right. That was after I wrote the paper. I have less faith now than I did before. It is unfortunate how sometimes concern for the image that the exchange rate conveys can sometimes overweigh what I would consider to be good economic sense on the matter. As an economist I see nothing wrong with letting the exchange rate fall in a situation such as that. It is perfectly reasonable, but sometimes people do not listen to economists.

Mr. Laughren: Higher interest rates.

Mr. Mackenzie: It might hurt the leap-of-faith argument that we get so often.

Dr. Dungan: Perhaps I should do that scenario then. It was on the table here that I did these five as the first set. If more were required, I would crank the model up and do them. It is not difficult to do.

Mr. Chairman: Should we ask for this?

Dr. Dungan: I will not charge you anything.

Mr. Chairman: Oh, if you will not charge us, please go ahead and do it.

Dr. Dungan: All right. Even at the University of Toronto we can afford a little extra computer time for this.

Dr. Dungan: Those would be my major conclusions from the study. These numerical results, which you should always take with a good deal of

sloppiness on either side, are just impressionistic results rather than hard figures. I am not precise enough to make them hard, but these would be the main conclusions I would draw on this macro issue from the study that we did.

10:40 a.m.

Mr. Mackenzie: I have some difficulty with some of the information you have given us, which I think is useful, but to me it implies that leap of faith once again. What I wonder is, when you are dealing only with the tariffs--I think our chief problem in any comprehensive free trade talks are the nontariff barriers, and there are all kinds of pitfalls in the nontariff barriers--if we are not dealing in your report with the nontariff barriers and if we are not allowing for the adjustment or the restructuring problems--whether the naysayers are right or not they certainly have given us a number of rather dramatic and scary examples--then what do we get out of your study? I guess that is what I am asking you.

Dr. Dungan: Going back to these key lessons, the issue of nontariff barriers does not really affect this question that there will still be a fiscal stimulus from the tariff cut. It may be true with respect to worrying about restructuring that you have to worry more about the NTBs than the tariffs. Nevertheless, my study is saying that from cutting the tariffs there will be a fiscal stimulus which they may either leave on the table or take back with a personal tax increase--

Mr. Mackenzie: I suppose that is going on even through the General Agreement on Tariffs and Trade rounds of negotiations.

Dr. Dungan: Yes, to some extent. That is correct. We have already allowed for, in our future scenario, some reduction in Canadian tariffs anyway. When I say we are taking those away, we are not taking them away from current levels, we are taking them away from those projected somewhat lower future levels. Whether there be NTBs or whether there be restructuring, the issue that there is a fiscal stimulus that comes out is still there.

Mr. Mackenzie: If that restructuring is as major as some people think, or that adjustment period is as major or as long as some people think, then with respect to the costs and those gains, it can throw them all to hell.

Dr. Dungan: The conclusion then would be that the fiscal stimulus I am showing here--I am not saying that it is, but the conclusion would be that the fiscal stimulus I am showing here is so small compared to the costs of the readjustment that we can ignore it. I am saying there is one there and it is worthwhile for you to compare it with those costs.

On the exchange rate issue, unless the NTBs would tend to be opposite to the direction of the fact that our tariffs are differential--in other words, what I am saying is through the tariffs alone before any adjustments take place, Canada would tend to run a balance of trade deficit with the US if we took them away. Unless the NTBs did exactly the opposite--and I suspect they would not--then I am still saying there is an exchange rate adjustment issue that arises. It might be bigger through the NTBs, but it is not small from the tariffs and so it is still an issue that is worth worrying about.

Finally, when it comes to the government deficit problem, the NTBs are for the most part going to affect that. The main impact immediately on the government is through the tariff cut. It is important to realize that there is $4 billion worth of extra deficit there, and there may be more if, in a sense,

there are adjustment costs, more subsidies or whatever needed on the part of the federal government. What are we going to do about that?

The points you have raised--which I do not disagree with; they are important to take into account--do not actually make the lessons that I am drawing from this study any different; they just mean that they are only some of the lessons of the very many lessons that have to be drawn from all of the studies on this issue. Is that of any help?

Mr. Chairman: Did you want to pursue this, Mr. Cordiano?

Mr. Cordiano: I will wait. It is not really following.

Mr. Knight: I apologize for being late. There are areas that have quite a bit of snow a few miles north of here and it makes travelling a little difficult, particularly up in southern Georgian Bay.

Professor, I have had a concern not just with your study but with others that have been presented to us. It is with respect to what I guess is a necessary limitation that they have in that you have been asked to look at and study the effects of a comprehensive free trade agreement or bilateral trade agreement of that ilk with the US only. I wonder if one of the caveats or limitations that should be mentioned is that the possible benefit of increased trade with the US--which the studies seem to indicate to us is measurable--does not address the possibility that the increase may very well be a diverting of trade from other countries, third countries.

I really cannot see that competition is going to go away just because we have a bilateral trade agreement. When I say "competition," I mean the posture on the part of American business, the protectionism, that we perhaps should become closer linked to them. That may result in our having to trade with a partner that may not be able to provide the Ontario economy with the least-cost goods or services. It is something that concerns me. We have talked about the benefits we can derive, and they are coming across to us, but they ignore the fact that it may not be to the extent that is proposed because of eliminating those other dynamics. Would you comment on that?

Dr. Dungan: You are quite right that it is a caveat in the sense that the model I am using for this study is not able to distinguish to any strong degree relative trade flows of the US versus those of third countries; so we cannot say anything about that and the possible harm or gain either way. It probably should be added to the list of caveats.

Mr. Knight: It is recognized that the benefits that are derived have to be taken with a grain of salt because they may not be that great a figure. We may be diverting some of the benefits from another country.

Dr. Dungan: I am not sure if I quite understand that point well enough yet. This all depends upon the actual mechanics of whatever agreement is put into effect.

Mr. Knight: If I might expand on it, let us just take a sector, and I realize your model does not get into the sector analysis as such and others do. If we increase trade in a particular sector because of the lowering of tariffs, etc., with the US, it may very well be that we then lower our trade volume with a third country as a result of that. Therefore, the benefits derived from the US may be offset somewhat, which would have an effect on the gross national product. I am suggesting it is an hypothesis that may have some merit or is certainly worthy of being looked at.

Dr. Dungan: Let me tell you one of the things we do take account of. It may reassure you on a couple of issues. On our export side in the model, we distinguish, at least for their levels of output, price levels and exchange rates, five other major trading partners--the United Kingdom, France, Germany, Italy and Japan. For example, what will happen in the model here is when we develop a balance of trade deficit with the United States, when we take away our tariffs, and if the Canadian-US exchange rate is permitted to fall in response, then what happens is the Canadian yen, Canadian pound and Canadian frank rate also falls, so that some of the net exports we generate in the model to get the Canadian balance of trade back into equilibrium will be with those countries and not with the United States, interestingly enough. In other words, unlike the tariffs, the exchange rate movement is against everybody, although in certain sectors you may have readjustments that this model just cannot take account off.

Mr. Knight: That presumes that your tie-in with the US still allows you to have that trade movement with other countries.

10:50 a.m.

Dr. Dungan: If I had any problem with that, it would be how you would get a tie-in that would not permit it. If you had industries which in a sense linked across the border so that they traded with each other at nonmarket prices, in such a way that they basically ignored the export opportunities to Japan, for instance--in other words, the Canadian plant was ordered to produce only for the main plant in the United States and could not take advantages of these extra opportunities that might arise vis-à-vis Japan--I can see that. That is not make good profit-maximizing business sense either. If those opportunities exist--

Mr. Knight: It does become an extension of the political system and indicates a necessity to be cognizant of those problems when sitting down to discuss a trade agreement.

Dr. Dungan: That is true. One thing I point out is exchange rates tend to very apolitical so that there is very little way to undo the advantages that are opened by exchange rate changes. If the Canadian dollar falls vis-à-vis the US dollar, because we have very little impact on what are called cross rates, then it is going to fall vis-à-vis the yen, the mark and the pound. Short of those countries raising their barriers against Canada, that means we develop a competitive advantage with respect to them. I suppose it would have to be a decision of the firm itself somehow because of the way it was locked into the North American market that would cause it not to take advantage of that competitive opportunity.

Mr. Knight: Limitations of models is an area that we have not really looked at too carefully. I would like to pursue it, but I recognize there are other members who would like to ask questions.

Mr. McFadden: Professor Dungan, you have provided a lot of qualifications, and we have gone through all of the various factors. I wonder if you could just tell us in a nutshell where you see it going. My impression, reading all of this, given the model you have prepared with all of these caveats and so on, is that overall there is a net gain in terms of output and employment on a macrolevel. Does that accurately portray what you have suggested here?

Dr. Dungan: Subject again to all of the caveats--I am very careful

about this--the fiscal stimulus that is involved in a tariff cut has a net positive impact. Again, there are two major policy ifs on that. One is that it is offset by a counteracting tax increase--and there are indications with the concern over the deficit that there might well be--and I showed you in scenario 4 that there ain't much left if you raise the personal taxes. There is a little bit, but not much.

The second caveat is that the exchange rate movement be allowed to take place. I think it is needed because that would undo most of the impacts as well.

The third important caveat is that I am not allowing for the restructuring. It is almost as though we were talking about any other budgetary move here in terms of the tax cut, but not surprisingly, because most models of this kind show that if you cut taxes, there are positive impacts on gross national product and employment for a while at least. This shows the same thing.

Mr. McFadden: The problem that Mr. Knight was commenting on is our difficulty with looking at this agreement in isolation from all of the other world trade patterns and the fact, if anything can be determined, that he whole negotiations will be going on at approximately the same time as the general agreement on tariffs and trade round will be going ahead, so that there could be two major events both impacting at around the same time, perhaps with conflicting results, and we have no way of know what might happen.

Dr. Dungan: The only reason I am hesitating is we have no way of knowing what may happen. I am not completely sure if I understand what the additional impact or shock to the system would be. Is it that other countries are lowering their tariffs vis-à-vis each other at the same time as this effect is going on? We can only put our tariffs to zero.

Mr. McFadden: I guess this is a little beyond your study, but it seems to me that we have also got the tremendous impact of the industrialization of the Third World to add to this and the fact that their goods come into Canada on a very preferred basis today.

Dr. Dungan: That is right. All of these studies are always, in a sense, with everything else held constant. It is a separate argument to ask, even exclusive of the free trade arrangement, what are the prospects for Canadian trade in competition with the newly industrializing countries? That is a whole other study, a fascinating one. Do they really mean we are going to be in for competitive trouble? If so, in what sectors and so on?

Taking all that as given, my study is basically saying: "Let us change this one thing, tariffs vis-à-vis the United States and its tariffs vis-à-vis us. What is the impact of all the things going on?" That is the impact I am showing you here.

Again, I have been very careful not even to show you in here what I think the base-case levels for trade and gross national product would be here. That is a whole other issue, such as whether it would be good for Canada in the future, whether it would not be and what our prospects are.

The only way those issues become important is if there is some interaction of those issues with this change, in other words, if pressure from the newly industrializing countries is going to make our response to a tariff cut vis-à-vis the US different from what it would have been in the past or

today, because the model is structured on the basis of past behaviour and past performance.

Your question has caused me to think about it for the first time. I cannot think of any such interaction that would be important.

Mr. McFadden: I can give you an example of what Mr. Cordiano raised. It was the shoe industry. The American shoe industry has raised some objection to any kind of an agreement with Canada because it believes an agreement is going to create real competition for it with exports from Canada to the US.

At first, the Canadian shoe industry was saying it was concerned about it because it was afraid of American imports coming into Canada. Both industries seem to be looking at it. I have talked to three shoe manufacturers in the last month. What seems to have happened now is that they realize--at least the Canadian manufacturers--that when they look at where they are getting the competition from, it is not the United States. Their competition is coming from eastern Europe, South America and the Pacific Rim countries. The impact of the US is negligible and probably would be negligible afterwards, with the same thing being true the other way, as I would expect Canada's impact on the American shoe industry to be negligible.

Dr. Dungan: In other words, the American exporters' concerns are unfounded.

Mr. McFadden: It just struck me that the point Mr. Cordiano raised was quite important. The two industries are looking at each other as threats to each other when it may be that the major threat in terms of price, goods and everything that is coming in and the main factors why employment is dropping are not between Canada and the United States; it is coming from somewhere else in the world. This is the difficulty, and this is the point I was getting at.

The trouble is isolating all these factors. As each industry looks at it, it has not only to analyse bilaterally but also consider impacts from elsewhere and decide which part of any problems it might have is related to American or Canadian trade, depending on which side of the border it is on, and which part is related to international elements.

Dr. Dungan: Fair enough. To put a positive tone on it, your last sentence says we should do what we have done here. In other words, we should take the world as it is--and maybe there are tremendous competitive pressures on the shoe industry from outside--and just change those tariffs vis-à-vis the US and see what that causes to happen to the economy. That is, in a sense, what we have done with the model here. The tariffs vis-à-vis the Third World countries are still there, both for the United States and for Canada; so the competitive pressures we will observe in these results are solely those of taking it away with respect to the United States.

11 a.m.

Mr. Cordiano: If I may interject, that raises a very interesting point. It seems as though this entire exercise will be doing just that; that is, the focus between our country and the United States, disregarding all the other variables that enter into the picture, may lead us nowhere. We may be where we are right now and have to deal with more complicated problems than we can foresee and not be able to deal with them because we do not have the flexibility once we have entered into what may or may not be a complete overhaul of our economic structure.

I know many people have argued that restructuring the economy will allow us to be more competitive. By the same token, you are restructuring the economy to meet one market. That is the major concern I have, that it will be focused on one market and not be able to meet competition internationally and therefore not be flexible and innovative as far as international markets are concerned.

I know this is taking it far beyond what you were talking about, but I think it is certainly the point we are raising here. We are focusing on both economies and we do not know what the impact on the US economy will be vis-à-vis all these other variables it is having difficulties with in regard to foreign competition.

What is going on in the US economy at this point? Over the last year as we started into this committee, there have been dramatic changes in the US economy as well in the way it is structured, etc. Things are changing rapidly there as well as on the international scene. By the time we strike a deal, the situation could be entirely different and we may be behind the times a little. Those are all considerations that I have. I am sorry to interrupt you, David.

Mr. McFadden: I just have one little point related to your question about productivity.

For example, there has been a lot of publicity around the new General Motors in Oshawa. Everybody who goes down there, from the Prime Minister to the Premier (Mr. Peterson) to the president of the United Auto Workers Union of Canada, all say what a wonderful thing this is from the fact that this will guarantee our place in world markets and guarantee and, they hope, enhance employment.

I have one question. You made a point in your experiment 5 that you thought productivity gains might have little or no impact on employment and show minimal gains. Why did you make an assumption that productivity gain here would not be useful from the point of view of economic output and therefore could have a beneficial effect on jobs?

Dr. Dungan: Sorry, just at the very last I lost you there.

Mr. McFadden: I am just trying to get your view on enhancement of productivity and its effect on the job market in Canada and Ontario. I know it is tough to zero in on Ontario, but we could take a look at the Canadian picture at least.

Dr. Dungan: Maybe I should have made more of this in the paper. The first thing is that the productivity which I enhanced is not labour productivity per se. It is the concept called total factor productivity, which is basically what you can get, how much more you get from the same inputs of labour, capital, raw materials and so on.

In our model, this was basically the only way we could take the Harris-Cox results, the working smarter or the working more rationally results, and impose them on our model. We basically had this term in there, total factor productivity. We made it grow faster than it ordinarily would have to reflect that restructuring.

That has considerably positive impacts on output. What happens is that you produce that output with approximately the same number of workers as you would have produced the lower output before. That is just the model grinding

through this imposed outside greater efficiency. It happens under the policy configuration we have that it gave you more output, lower inflation and the same number of jobs.

That is partly an artefact of the monetary policy which I chose to be working under here, which was that the Bank of Canada would make money grow at approximately the same rate, whether the productivity increase occurred or not. In fact, there is reason to believe that it would recognize--it ought to, at any rate--that the real growth path of the economy had improved because of this productivity shift and that an increase in the money supply over what would have been true without that productivity increase would not be inflationary. In a sense, it would simply provide the credit or the money to allow an enhanced level of gross national product.

The net result of that would have been less of an inflation reduction, still more output and then a slightly positive impact on employment. If you restructure your economy in such a way that you can produce more for less, then it is up to the economy to figure out whether to employ the same number of people and produce more output, employ a few more people and produce still more output or employ fewer people and maybe produce a bit more output but allow you to cut inflation. In a sense it is a policy tradeoff that the model is saying is up to the bank and the federal government to decide upon.

One of the lessons I drew here, which I did not summarize in my talk because it is less important, is that to the extent that productivity enhancement does occur here and that our potential real growth path is improved by this restructuring, if indeed it will be, the Bank of Canada when monitoring fiscal policy has to take that into account. Otherwise, they will turn a lot of that productivity increase into lower inflation--it is not clear that we need that much lower inflation nowadays--rather than into still more output and job creation. It is in the hands of the federal government's policy setters to direct that productivity increase one way or another.

Mr. Ferraro: We are in trouble.

Mr. Chairman: Gentlemen, as you know from our schedule, we have two matters on today. I have four more people, and unless they are questions that can be answered without dialogue in 60 seconds, I am going to ask you to forgo them. Mr. Laughren, is that the case with you?

Mr. Laughren: No, it is not. I am only a country boy from the north and I need more help than 60 seconds, if possible.

Mr. Chairman: I wonder if you could forgo at this time.

Mr. Laughren: Sure.

Mr. Ferraro: Professor, when you consider all the intangibles and variables in this thing and its uniqueness, assuming there were studies made when England was contemplating going into the European Community, were the studies similar and, if so, did they hold true after the fact?

Dr. Dungan: I am afraid I cannot say. There is a famous example as you probably know, the famous letters to the Times apropos that. One letter to the Times set out in great detail why joining the Common Market would be good for Britain, and was signed by 70 or 80 economists from various universities. Another letter to The Times set out in great detail why it would not be good, and 70 or 80 economists signed that. There was the usual split.

Unfortunately, I am not sufficiently into this area to be aware of some of the studies pro or con on which that was based. It would certainly be an interesting area of research.

Mr. D. W. Smith: Just a short question. Maybe two or three, but they are very short. Do you know if free trade has ever caused wars in past history?

Dr. Dungan: That is not my area of expertise.

Mr. D. W. Smith: We are talking about free trade, and if it has caused a lot of problems in the past, you as an economist--

Dr. Dungan: I am not an economic historian. That is not the area I study. Nothing leaps to mind, but that does not mean that there were none.

Mr. D. W. Smith: Is it not very difficult for countries that have different styles of governments to have free trade between them?

Mr. Chairman: Mr. Smith, Dr. Dungan is an economist and that question perhaps deals more with the political. Our next witness might better be able to answer that question.

Mr. D. W. Smith: Yes, but that is still a part of free trade.

Dr. Dungan: I pass. It would just be a personal opinion.

Mr. Chairman: The next witness is a political scientist and he might be able to talk more about that.

Mr. D. W. Smith: I will repeat my question then.

Mr. McLean: You indicated in your remarks the restructuring of the North American auto industry, the industries and the spinoffs. Mr. White, the head of that labour union, has talked about bilateral trade agreements that would dislocate 800,000 workers in Ontario and Quebec. What parallel do you draw there? Do you feel he is on base or do you feel it would enhance our auto trade?

Dr. Dungan: I am unfortunately not familiar with the remarks Mr. White may have made to the committee.

Mr. McLean: I am going by what he has written in the Star.

11:10 a.m.

Dr. Dungan: Unfortunately, I have not seen it. I would be surprised if he is saying that the 800,000 are related to the auto industry though.

Mr. McLean: Not directly to the auto industry, but if free trade between Canada and the United States is proceeded with, 800,000 workers could be affected. Do you agree with that?

Dr. Dungan: It depends on what he means by dislocation. I find it difficult to believe that 800,000 Canadian workers would be out of work for a long time because of free trade.

Mr. McLean: I do not think he said they are going to be out of work, but relocated.

Dr. Dungan: Does that mean physically relocated or does it mean doing different jobs in the same factory?

Mr. Chairman: The Cox and Harris report prepared for the Macdonald commission estimated that up to seven per cent of the labour force could be required to shift employment. White said that means the dislocation of 800,000 workers.

Dr. Dungan: That would not mean in Ontario; that would mean across the whole country.

Mr. McLean: That was 280,000 in Ontario and 450,000 in Quebec.

Dr. Dungan: If we are talking about people doing different jobs, Cox and Harris are very careful to point out that under today's situation very often the kind of rationalization that would occur under free trade is not so much that of whole industries closing down and others starting up, but rather rationalization of intra-industry trade.

In other words, it would be two factories on different sides of the border that were producing two goods suddenly deciding that they will each produce one. That would mean that in a sense half the the workers in each factory could end up doing different jobs, perhaps in the same building and probably in the same town. Relocation can mean anything from having to work on the other side of the assembly line to having to move to a different province and perhaps being out of work for a year or two while you are retrained.

The Cox and Harris stuff is really good. If their number taken in context is what is going on there, that is probably the best estimate we have.

Mr. McLean: Yes, but Cox and Harris says it is only going to be between 8,000 and 12,000 jobs created and if we leave it the way it is, there could be 70,000 to 100,000 jobs created.

Dr. Dungan: Did Cox and Harris say that?

Mr. McLean: I quote: "What would be the employment benefit? Professor Harris recently released another result of the study which indicated that there would be a net creation of 8,000 to 12,000 jobs in Ontario in the next 10 years. It is important to remember that the normal growth in the economy--

Dr. Dungan: Bob White is not indicating that you would get 8,000 to 10,000 with free trade and 70,000 to 100,000 without it. The point he is making is that the net increase is relatively small. In other words, 8,000 to 12,000 would be on top of the 70,000 to 100,000 you would normally get anyway. He is trying to point out that the net increase is approximately 10 to 12 per cent of the increase you would normally expect; in other words, it is not huge. I certainly do not read that to mean that you get 8,000 to 10,000 with and 70,000 to 100,000 without.

Mr. Chairman: The report he is quoting from is a report Professor Harris did for our committee and Professor Harris will be here tomorrow morning to defend that report.

Dr. Dungan: He can do it much better than I can.

Mr. Chairman: I want to thank you very much, Professor Dungan, for

elucidating what is in your report. It has been very helpful and it will be very helpful too if you could turn the other knob that you indicated could be done very easily. We would appreciate that as well. Thank you very much.

Dr. Dungan: If there are other questions that people would like to talk about in greater detail, I am just across the street. I am a local phone call away. Mr. Traficante has my number and I am happy to talk to anyone.

Mr. Chairman: We will get that message to Mr. Laughren in particular. Thank you.

Dr. Dungan: Thank you.

Mr. Chairman: Next we have Professor Richard Simeon from Queen's University. Welcome, sir. Being from Queen's University, obviously, you are an expert.

Dr. Simeon: I am not sure about those last questions you handed over to me.

Mr. Chairman: The background to Professor Simeon's appearance before us is the point that Mr. McFadden and I jointly made to a press conference in November when we released the report in which we claimed that Ontario effectively has a veto over at least some aspects of free trade debate. This perked the interest and imagination of the media to some extent. While we had not really looked at it in any of our deliberations, we had assumed that was the case and everyone accepted it.

Obviously, some debate occurred and, therefore, it seemed appropriate for us to look specifically at the constitutional aspects of the whole debate. We have not done that up to now. I understand you have prepared a report which will be distributed very shortly to the committee. It is being copied right now. Would you be prepared now to enlighten us on whether we were right?

DR. RICHARD SIMEON

Dr. Simeon: I would like to begin with that question of the distribution of powers with respect to treaties, international trade and so on. Then, with your permission, I would like to go on to speculate a little bit more broadly about what might be the effect on Canadian federalism and Ontario's role in it, if we were to get a free trade agreement. I also want to say a few things about how I think Ontario should conduct itself in the continuing debate about negotiation, implementation, et cetera.

I will begin with the constitutional division of powers with respect to international trade negotiations. The traditional view is that foreign affairs is largely a federal domain. Only the government of Canada, it appears, can speak authoritatively for the country abroad. Only it represents Canada as an international personality in the eyes of international law. Only the federal government appears to have the power to negotiate formally binding treaties, although we know the provinces can and do negotiate hundreds of less formal agreements with states and other countries. They are also very active in export promotion and representation abroad. The provincial role in such matters has increased greatly over the years and there does not seem to be any constitutional impediment to that.

The right of provinces to negotiate and to ratify legally binding treaties in their own areas of jurisdiction. Although that point has been

argued by Quebec in the past, it has always been very strongly resisted by the federal government. I think it has some support in the decisions of the Supreme Court, most recently in the 1984 Newfoundland offshore minerals reference, where the court decided that the federal government represents Canada in the international forum. There is that general federal superiority in international affairs.

The ratification, the formal, legal accession to a treaty, is apparently a crown prerogative which was transferred to the Governor General in Council, not divided between the Governor General and the Lieutenants Governor in the letters patent of 1948. We have neither a legislative nor federal role in how Canada formally accedes to a treaty, in contrast to the United States where the provision for Senate ratification brings in both the legislative and the federal since it represents the state element. This absence of a legislative or provincial role could be seen as a weakness in our ability to project Canada's character as a parliamentary democracy and a federal system into the international arena; however, I think the crucial point is not the power to make and ratify treaties but the power to implement them.

As a result of the labour conventions case of 1937, it seems pretty clear that the federal government's power to make treaties has not been extended to the power to implement them. Implementation requires legislation to give effect to what is contained in the treaties. A treaty does not automatically become the law of the land in Canada once it has been ratified. When it comes to implementation, sections 91 and 92 dividing powers between the federal government and the provinces operate. The standard view, therefore, is that Ottawa cannot pass implementing legislation in areas of provincial jurisdiction; it can only do so in its own area of jurisdiction.

Again, that is in very sharp contrast to the United States where treaties are largely self-executing. Once they have been ratified by the Senate, they become part of the law of the land, applying both to the federal government and to the states.

11:20 a.m.

When treaties are mostly about the traditional stuff of international affairs, about security, diplomacy and that sort of thing, then provincial interests have little role to play anyway, so that characteristic is not really a problem. Nor do they when international trading arrangements are based on tariffs because tariffs are clearly within federal jurisdiction and the federal government can, therefore, implement a treaty about tariffs.

However, when the issues centre on nontariff barriers, as in recent years, then the federal problem we have in this country arises very directly. Purchasing policies, subsidies, the regulation and taxing of resources and a host of other matters that are within provincial jurisdiction become potential subjects of negotiation. This is especially true if we are talking about a free trade arrangement with the United States because tariffs are already so low between the two countries.

One could argue that to achieve its minimal objectives for supporters of free trade, a Canadian-American free trade agreement must constrain provincial and state activities, as well as federal activities. The irony is that if you have that objective, the more effective the agreement is in writing rules that limit the states and the provinces, the more that agreement will depend on provincial consent and provincial legislation to be effective. Furthermore, the extensive range of provincial economic powers today suggests that an

agreement binding only on the federal government in that sense will not be at all acceptable to the US. It will want to be able to constrain provincial action.

The provinces appear to have a pretty strong constitutional hand with respect to any aspect of a CAFTA that imposes legal obligations on them or constrains their authority within their existing jurisdiction under section 92. In that sense, one could argue that they have a very considerable authority to frustrate, ignore and violate international agreements made by the federal government. There are all sorts of grey areas, however, and there is one line of reasoning which might point the other way and which might potentially give the federal government greater scope, not only in implementing a CAFTA but also in regulating and policing provincial activities inconsistent with it. This arises out of the federal trade and commerce power.

Subsection 91(2) of the Constitution Act gives the federal government authority over interprovincial and international trade. In the name of federalism, this power has been interpreted very narrowly by the Canadian courts since a broad interpretation, such as the US Supreme Court gave to the US trade and commerce power, could lead to an essentially uncontrolled expansion of federal authority. In order to protect federalism and to protect the provinces, the courts have made a sharp distinction between interprovincial trade and intraprovincial trade which goes on within a province.

You might want to consult somebody who is more of a constitutional lawyer than I am, but it is possible that a CAFTA could do much to destroy that distinction between interprovincial and intraprovincial trade. It would make quite explicit that all sorts of economic activities taking place within a province and being regulated by the province now obviously had international ramifications. That might lead to the argument that these should be regulated by the federal government. On its past record, the Supreme Court is likely to look for principles and interpretation that retain a significant role for provincial economic powers and would tend to want to limit blanket extensions of federal power.

If one had free trade, however; the line within the powers of trade and commerce might be redrawn in a position somewhat more in the direction of federal control than it is now. The courts might become somewhat less permissive of provincial actions which indirectly affected Canadian trade abroad. If that scenario were to develop, the kinds of Ontario things that would obviously come under threat would be liquor board policies and purchasing policies. So far, we have been very permissive about that sort thing, although quite clearly Ontario discriminates abroad. The federal government might have a case to intervene in that area with a free trade agreement; however, that is very speculative.

If you look generally at this distribution of powers with respect to international trade, there is what one might call a constitutional gap that could seriously hamper Canada's effectiveness in international trade negotiations, and not just that having to do with bilateral free trade. International commercial arrangements are likely to be more and more important for Canada generally, whether or not we have free trade. One might argue that we must find some way to reconcile the internal division of powers of federalism with the new international requirements of international competition and so on.

We need on the one hand to ensure that any trade treaty is binding and

enforceable on the provinces, and on the other hand to guarantee the provinces some kind of effective role in negotiation, ratification and implementation. The more we need the former and the more we need the provinces in, the more attention we have to pay to how we do it.

The Macdonald commission considered several alternatives to deal with this gap. One was a constitutional amendment that would simply give the federal government blanket power to implement international trade treaties. In our federal system, you can imagine the likelihood of that ever being agreed to. Another suggestion was that it might be a bit more acceptable if treaties were ratified by an elected Senate that strongly represented the regions. This is not a very likely possibility.

A third possibility suggested is a kind of opting-in process whereby a treaty might be negotiated internationally, but it would apply within a province only when the individual province passed the necessary legislation. It is very hard to imagine that kind of checkerboard arrangement would be acceptable to Canadians, and more particularly, to Americans.

For the longer term, the commission proposed that we might try to develop a constitutional amendment that would create a more democratic ratification process in Canada. Its suggestion was that all treaties would have to be ratified by Parliament, giving a legislative role for the first time, but where those treaties imposed obligations on provinces or took away from existing provincial constitutional powers, those sections of such a treaty would have to be ratified by a number of provinces in the same way as a constitutional amendment. It would take seven provinces with 50 per cent or more of the population to ratify such a treaty. Once it was, it would be as in the US. The treaty would be binding and enforceable in both provincial and federal law.

Thinking about those alternatives relates rather directly to some of the big questions about federalism we have been discussing during the past few years. The committee should address them and think about how it would like Ontario to structure its participation. It really goes to the heart of what the appropriate economic roles are of the federal and provincial governments, and to the question of who speaks for Canada.

Some prefer a collaborative model, which most of the provinces are espousing in the current debate about their participation with Ottawa. Its proponents maintain that national policy and policy-making in a field such as this is a function of the operation of both orders of government, that neither should or can have primacy and that therefore crucial matters of public policy must be developed in a collaborative federal-provincial forum.

Applied to these negotiations, this model suggests that both federal and provincial governments should be equally involved at all stages in the development and that provinces are best able to represent the interests of their regions. This would recognize that Ottawa cannot act unilaterally to override provincial powers. It would suggest that the formation of Canadian goals and the Canadian negotiating position should be mandated or legitimated by a first ministers' conference, that if the negotiating team does not actually include provincial representatives it should report back to the provincial Premiers as well as to the government of Canada, and that ratification should involve action by both levels of government.

Similarly, implementation would be a matter of the federal government implementing it in its areas of jurisdiction and the provinces in theirs. If a

trade agreement created some new bilateral enforcement body, this would argue the provinces must be present in that enforcement body, especially if it is going to pronounce on provincial activities.

<u>11:30 a.m.</u>

Obviously, there are philosophical and practical objections to this kind of collaborative, perhaps one might call it provincialist model. Many people would argue it reflects a degree of provincialism that is incompatible with their conception of the country. Practically, there is the danger that Canada's position internationally would come to be only a lowest common denominator, that the divided opposition would allow American negotiators all sorts of opportunity to divide and rule, that we could never get our act together and so on. Some people will argue that this provincialist view of international trade matters would fatally weaken Canada's ability to operate effectively in the international environment.

Opposed to the collaborative model is the more centralist one, which argues that the federal government does have overall responsibility for the management of both Canada's international affairs and its domestic economic affairs. This model will argue that it is quite legitimate for the federal government to extend its influence into areas of provincial jurisdiction when it is necessary to define and carry out a broad national purpose; for instance, the establishment of the Keynesian welfare state after the Second World War.

Today, this model might argue that these new international circumstances justify a strengthening of the government of Canada's role over the domestic economy to meet this competition. Applied to the negotiation of a free trade arrangement, this model has clear lessons--that the negotiations should be the prime responsibility of the federal government, that it is its ratification that is important and that it should have a larger role in implementation in the initial situation such as the one we are in now and so on.

There are philosophical and practical objections to that model. On the philosophical level, the concern about going that route is that you open the door to the federal government having a great deal more influence over the economic policy activities of provincial governments than it has now. That is something to worry about. As I have mentioned, practically there is the possibility that however much some people might argue the desirability of that centralist model, it is not the way the legal situation is at the moment with respect to implementation.

Neither of these models alone is workable in the current circumstances. It is possible to imagine all sorts of compromises in which there can be federal-provincial co-operation and agreement on how to proceed. I think the incentives are roughly right. The federal government has to be concerned that the provinces may be able to scupper an agreement. The provinces have to be concerned that if they do not co-operate the federal government can go ahead and work out an agreement, and then through some kind of force majeure, force through more of a conception of greater federal dominance than the provinces want to accept. At the end, I would like to come back to some of the ways in which Ontario might suggest a compromise.

That is the first set of issues I wanted to discuss. I do not know whether you would like to break here, Mr. Chairman, and discuss this legal aspect. I do have a few more comments to make on some of the longer-term impacts of free trade, but perhaps this might be a good place to break since this has gone through the formal legal aspects of it.

Mr. Chairman: Perhaps it would be better if you carried on because I have only one question so far.

Dr. Simeon: The other interesting and important question to ask is, what are the consequences of free trade for federalism? If we get it, how will our federal system change? We have to be even more speculative about this since it is so hard to imagine what the free trade agreement will actually look like. It may well be the politics will be largely symbolic. We will cut tariffs and set up a consultative mechanism and that would be about it. That would not have any dramatic effect. Politically, perhaps that is where we are going to end up and perhaps that is what Mr. Reagan and Mr. Mulroney are looking for.

The logic of free trade pushes towards a much more comprehensive agreement. Logically it does. Mainly that is because the single, most compelling argument for free trade is to give Canada security of access, certainty that the US market is open to it and will not be closed down by rules, quotas and so on. That means we are going to ask the Americans to constrain sharply their own democratic political process. In a CAFTA, a Canadian-American free trade agreement, we want to tell them they cannot do things to us. It would impose those kinds of constraints on them. If that is so, surely the price will be concessions by our side on the question of the level playing field. That is the fundamental tradeoff. If so, if it is the level playing field that is the Americans' concern, a huge range of Canadian policies come into question regardless of the initial protestations that we can insulate all our important policies, our social policy and so on. That is not in the logic of the development.

Mr. Cordiano: What do you mean by constraint on the democratic process? Are you implying we would not have to and they would?

Mr. Simeon: Oh, no. This is a little beyond what I am talking about here. The fundamental political aspect of a free trade agreement is to constrain the operation of political decision-making, of interest groups and so on in each country. The whole point of a free trade agreement is to say to the Americans, "You cannot do these and these and these things to us," and for the Americans to say, "You cannot do these and these and these things to us." That is the logic of it. It says that whether or not they actually exist, the benefits of free trade justify this restraint on the autonomy, or the freedom of choice or the ability of governments on both sides to make decisions.

Mr. Cordiano: Are you saying that is not achievable or that it is not achievable in the ideal sense, the truest form of a free trade agreement that is negotiated?

Dr. Simeon: To put it the way I put it, and if people see it in that logical way, it is to say just how difficult it will be to do it.

Mr. Cordiano: You cannot remove all the political elements.

Dr. Simeon: No. We are obviously talking about a continuum. If you think of an individual unit, whether it is Ontario, Canada, the United States, the state of Michigan or whatever, you can think of how much freedom a political unit has to make its own decisions about what it wants to do in a continuum. In an interdependent world there is absolutely no such thing as a truly autonomous political unit. The United States is pretty close to that end of the continuum. However, as we know, Canada is constrained by all sorts of things, some of them rules as in the General Agreement on Tariffs and Trade

and a lot of them market forces--the influence of mobile international corporations and all these sorts of things. There are real limits. Canada is much more limited in what it can do than the Americans because it has a much less self-sufficient economy, one that is much more integrated with the rest of the world.

There are no truly autonomous units and similarly there are no truly constrained units. All political units have some ability to say, "We want to go this way," or, "We want to go that way." The logic of free trade is to move us along the continuum from a more autonomous to a more constrained situation. That is what causes the problems for our democracy and perhaps for our federalism.

Mr. Cordiano: In your opinion, who would be constrained more? It would be our political system as opposed to the American one. I do not necessarily mean because of the structure of the systems, but because of the balance of power between the two countries.

Dr. Simeon: That is probably true. We have no textbook. When we were discussing Quebec separatism, we were discussing sovereignty-association. One of the arguments against sovereignty-association, even in Quebec, was how can you possibly have a two-unit arrangement with one unit being so much larger than the other? How could that work without the other either dominating it or being frustrated and getting out of it. That question would arise in a free trade arrangement. It would depend a little on what it included. If it were very limited, these issues would not arise. As soon as it gets into a continuum, it begins to be said that exchange rates are important because that is what determines the competitive ability of Canadian exports in the American market. As soon as you go down that road, the constraints become more and more severe. Politically, and in terms of Ontario and federal policymaking, that is the big question. I touch on a couple of these things later.

To continue, the first question we might ask about a free trade arrangement, politically and in terms of federalism, might be what would be its effect on regional conflict and on Canadian unity? That is the biggest question. One of the strongest arguments for a free trade agreement is that it would promote national unity by removing one of the prime historic grievances in regional conflict and discord; that is, it would finally bury the national policy through which central Canadian manufacturing, transportation and financial interests were seen to be benefiting at the expense of the west, with all the legacy of western alienation that has left.

11:40 a.m.

The national policy was based on the assumption that building a Canadian nation depended on the creation of a national economy operating on east-west lines. Suffusing the national policy was the idea that the country that trades together stays together. That was very important. Free trade makes another set of assumptions. In a free trade model there is no particular virtue in Canadians trading with one another. If the internal trade is artificial and brought about by government action, it is bad economics because it leads to inefficient economic policy.

It is politically inefficient because it increases conflicts in some regions, such as Alberta being forced to sell its oil cheaper to Ontario and being coerced into that trade arrangement. This argument says, "If we stop forcing these people to trade with each other and allow everybody to trade freely with whomever in the world wants to buy from and sell to them, that is better politically for the country and removes the conflict."

There is another side to that issue. You have to ask what goes along with trade. If trade within Canada is also a carrier of cultural values and interpersonal ties--linkages among individual Canadians--we would give up, and perhaps have already given up, a lot by giving less weight to promoting trade linkages within Canada. In the long run, we run the risk of reducing the capacity to build national support across regions for big, common national purposes. I would worry about that in the long run.

Another implication of changing trade patterns that would be exacerbated, but not created by free trade, is what it would do for our commitment to equalization and for the general concept of sharing within Canada. One might argue that in an economy that is an integrated one in which the regions trade with each other, the redistribution that goes on has a circular reinforcing quality. If Ontarians send a dollar to New Brunswick as part of equalization, that dollar gets spent back in Ontario buying goods and services from Ontario. That ties the country together. Ontarians can easily accept participating in a redistribution system such as that. However, if the dollar goes from Ontarians to New Brunswick and then gets spent in the United States and does not filter back eventually to Ontario, it is much more of a zero-sum situation and there may well be, in the long run, an erosion of that kind of commitment.

Mr. Laughren: A negative sum for Ontario.

Dr. Simeon: That is right.

Related to that equalization question, we can ask what the future of regional development policy would be in this country, which has become very important. There are both indirect and direct possibilities. Regional policies might be fully protected in a free trade arrangement. GATT already allows regional policy. The question is whether that could persist under a free trade arrangement. Many of the instruments of regional development policy in Canada are just the sort of things a free trade agreement is likely to try to catch. Assuming that such nontariff barriers were not permitted in a trade agreement, we might profoundly, if not reduce our commitment to regional deveopment policy, at least shift the kinds of policy instruments we use. That is another possible and very important set of implications for policymaking and for federalism.

What would be the effect of free trade on provincial industrial policies of the sort that Ontario has increasingly carried out? The growth of provincial attempts to manage their economies in the past couple of decades has been one of the most striking features of Canadian federalism, although it can be exaggerated. We have to see that the instruments used in these kinds of provincial industrial policy activities--grants, loans, tax provisions and all that--may be precisely the things a free trade agreement would likely be designed to curb. At a minimum, free trade is likely to shift provincial industrial policies away from that tax-grant-incentive sort of thing towards such things as education and manpower, which are not nearly so subject to being caught up in a free trade agreement.

It is also possible that free trade might increase the economic importance of Ontario economic policy. Getting back to this issue of constraint, one could argue that already some of the big levers the federal government uses--fiscal policy and monetary policy--are ones that international forces, not the provinces, have already constrained. One can speculate that a free trade agreement might end up constraining the federal government more effectively than it would police the provinces. After all, to

police one government is easier than to police 50 states or 10 provinces. It may be that the federal government ends up with less power and is more constrained by this, and the citizens, being frustrated by that, will turn to the provinces and maybe even to local governments and will say, "Hey, look, you have to act more aggressively to promote our economic interests." It is not just that the provinces and the federal government will be constrained. Since both will be constrained, it is just possible the provinces might be constrained less.

Another issue that I do not think I should talk about now but that you might wish to bring up is what the implications of free trade would be for the whole issue of the economic union within Canada, which has been discussed so much in recent years. Of course, the two are absolutely parallel. Enhancing the Canadian economic union tries to stop provinces from doing to each other what a free trade agreement would try to stop the two countries from doing to each other. It is reasonably clear that while right now there is very little will to do very much on the internal free trade issue, that would be very much accelerated by--perhaps in a sense it would not become an issue. We would just have to get rid of all these internal barriers under free trade.

Finally, there is the question of whether free trade in the end would centralize or decentralize Canadian federalism if we got it. The most common view is that free trade would probably end up centralizing Canada, that free trade dictates and requires a unity and singleness of purpose within Canada. It implies that we have to get our act together, implies that we have to speak with a single voice and so on. All that, it is argued, might mean that if we got free trade, the federal government would end up as the primary economic spokesman for the country.

There is another view in that, and it is the view I just mentioned: Free trade may end up constraining the federal government even more. The federal government will find that its own current economic levers are less and less effective in the future. We will find that the major issues of economic policy become ones of so-called microeconomics, of the competitiveness, ability and adaptability of our work force. That means that economic levers in provincial hands, like education, become that much more important. It is not at all clear to me that in the long run getting free trade would be centralizing.

One other thing we might point out is that those periods in Canadian history when the authority of the central government has been greatest have been when the federal government has been able to mobilize sufficient support for a national policy that could be achieved only through federal action, whether it was the National Policy of Macdonald or the development of the Keynesian welfare state. Free trade, in a sense, is another national policy, but it is another national policy that says we cannot have a national policy in the future, or at least not one that involves high degrees of government intervention.

Finally, to say a few words about Ontario's role in the future, in a sense the current situation--because the alliance tends to be the federal government and most of the provinces in favour of free trade; Ontario is the one that is dragging its feet and has more uncertainty about it or is perhaps even opposed to it--leads to a situation in which Ontario would tend to argue very strongly the case for the provincial veto and the case against using free trade as a vehicle for expanding federal power and so on.

I think that is true to some degree, but it is also worth recalling a little bit of history. When the committee thinks about what role Ontario

should play in these stages, it will be worth thinking about what the future alliances might look like. If we look at the 1970s, Ontario was arguing the case for expanded federal power over the economy. Because of energy, Ontario wanted to make sure the federal government could capture energy revenues, limit the ability of provinces to use their energy and natural resources against the interests of Ontario and so on. We have a history in which we have Ontario tending to line up with the federal government on these big economic issues such as the economic union and energy.

11:50 a.m.

That may happen again in the future some time. One would not want to argue a situation that seemed to limit too much the federal potential in the future, especially when one can argue that Ontario is always likely to have a lot of bargaining power in Ottawa. Indeed, on free trade it might not be inconceivable that the federal government would sign a free trade agreement over the objections of the government of Ontario, but it is pretty inconceivable to think it would sign a free trade agreement over the objections of a majority of Ontario people as explained to them by Decima Research Ltd. I think those are some longer-term issues.

With respect to the specific areas of negotiation, it seems to me that Ontario and this committee might want to endorse some of the things I touched on earlier. Clearly the committee will support some form of provincial participation in the negotiation process and extensive consultation. I certainly would like to see the Macdonald commission's proposal for a constitutional amendment involving a provincial role in ratification adopted in the future. It is very important for Ontario and for other provinces to argue that agreement on a free trade agreement should neither directly nor indirectly extend federal jurisdiction into areas of current provincial responsibility. The point to make there is that any changes in this distribution of economic powers between the two orders of government should not come in through the back door of a free trade agreement but should come in through the front door of an explicit discussion of economic roles.

Finally, in any discussion of a new bilateral enforcement agency, Ontario may well want to suggest that there be a provincial role, at least in the nomination of Canada's members to such a body and so on, but some of those are spelled out in a bit more detail in my written remarks.

Mr. Chairman: Thank you very much. This is extremely helpful.

There is one area I would like you to touch on quickly, if you could, concerning the American Constitution, which binds the states if there is an agreement. To some extent I am a little fuzzy about how that would really work in some areas. For instance, I am thinking of banking, which is a state-operated area. If that is negotiated away, how will the state of Nebraska handle it?

Dr. Simeon: Especially during the debate we had about the economic union, lots of Canadian participants in that debate said: "Look at the United States. That is a true economic union. There are no barriers and so on and so forth." Of course, that is absolutely wrong. In some ways the American economy is more fragmented, as in the banking system. We certainly know that states have all kinds of state development policies, state protectionist policies and so on, which is one reason that we would want to constrain them in a treaty.

I think there are two levels. First, at the level of signing treaties ratified by the Senate, all state and federal legislation falls in front of such a treaty. However, there is another way in which the United States is able to make international trading agreements--I am sure you have had it explained to you, and I do not know the details--the so-called fast-track. It is one that does not actually involve a treaty; it involves an agreement and is enshrined in legislation. That would not have the same automatic binding effect. Like the Canadian situation, I believe it would involve implementing legislation, although I am not sure of the detail on that; but it certainly would not automatically bind the states in the same way that a treaty does.

Mr. Chairman: That is the point I wanted to make.

Dr. Simeon: Then you turn in the US context to the American trade and commerce power. The American trade and commerce power has been interpreted so that whenever the federal government feels it must act, the state practices fall; but so long as the federal government does not act, then they have a lot of freedom. I think it would be entirely constitutionally in the federal power in the United States to say: "We are going to have a single nationally regulated banking system. The fact that we have state-regulated banking systems is to a large extent because the central government is being permissive about that."

Just an example of how far that power of the American national government can go is a case just recently in which the Supreme Court held that federal hours-of-work legislation applied to city employees. I think it was in Albuquerque, New Mexico, San Antonio or somewhere like that. Imagine thinking of Ottawa's minimum wage laws or Ottawa's hours-of-work act applying to provincial employees.

Mr. Mackenzie: A 40-hour week.

Mr. Chairman: I just want to clarify what you are saying on fast-track. Is there any difference in fast-track?

Dr. Simeon: Fast-track applies to the Senate ratification. Therefore, (a) it does not involve the states and (b) it is not clear that it has that same automatic effect of becoming the law of the land. There has to be legislation and that would be, initially at least, federal government legislation. It would probably then have to take further steps--which, you can imagine, in the American political context would be very contentious--to impose that on the states as well.

Mr. Chairman: You are saying, then, because we are into fast-track--it is the only way it is going to happen--that the state governments are going to have to ratify this agreement.

Dr. Simeon: Oh, no; I would not put it that way. Certainly they would not go at it the same way we do. I think the national government is going to have to write the rules, and we are going to have to insist that they write those rules in order to police the state activities we meet, such as writing rules which say that states are not allowed to have buy-America programs.

One characteristic of the American situation in comparison with the Canadian one that is a real complicating factor in the politics here is that we talk about Canada being a fragmented political system, but in some ways the American system is infinitely more fragmented than ours is. If you look at the

incredible activism--again, in my written remarks I have a paragraph or two about the role of American states in economic development--and if you look at the inventiveness, the imagination and the aggressiveness that American states and cities have been using to promote their own economic development in the last little while, it is going to be very hard to police.

I do not know enough about these kinds of economic policy details, but we want to be awfully darn sure that a free trade agreement did not leave Ontario less able to influence its affairs than Michigan, Ohio, Illinois and all the states just across the lake. I am not an expert on this, but I would certainly recommend you get someone who knows that American political and legal situation better, if you have not done so already.

Mr. Chairman: It is a fascinating issue in view of the fact that the United States Trade Representative seems to have told our government that it has to get Ontario in line before they talk.

Mr. D. W. Smith: I certainly think you have a very thought-provoking presentation here. Do you see that, if some of the things we have been talking about developed in free trade and if the United States and the federal government get their acts or treaties--whatever you want to call them--in order, Canada could in the long run eventually be swallowed up or taken over by the United States?

Right now I do not think all of the things the United States has done are that fair. For instance, a lot of American workers can come to Ontario--because that is where I know best, I guess--and work, and yet our Canadian workers cannot go back to Michigan to work. I can say the same for Quebec workers; they can come into Ontario much more easily than our workers can go to Quebec. Maybe there is a bilateral agreement between the provinces because the unemployment rate was higher in Quebec than it was in Ontario at some time or other.

As I have listened, or tried to listen, to what you were saying, you almost led me to believe that Canada could be swallowed up if the feds got their way about it. I wonder whether you want to make any more comments on that.

Dr. Simeon: I guess that is the big question here, and I must confess that I do not have firm answers to it. I certainly think one can imagine that as a possibility. If you look at the Canadian consumption of every form of American cultural good these days, many people would argue that we have already done that, that our differences from the United States are relatively marginal and so on, although I personally would argue that they are still pretty important.

In some sense I do think some of the things people worry about when they talk about free trade are things that are going on already. It is not in this sense that free trade introduces a whole new ball game. It is really a movement along a direction that has already started. We have been increasing the proportion of our trade with the United States ever since the Second World War. We have been reducing tariffs ever since the Second World War. We have been having greater American penetration of all kinds ever since the Second World War and before, so in that sense it is not very new.

12 noon

Two or three arguments were made, I guess, by the Macdonald commission and others, on the issue of Canada simply being swallowed up. One was that it is possible to insulate large areas of policy making, that it is not a slippery slope that starts with nontariff barrier areas, then goes to exchange rates, then goes to minimum wage laws and then goes to a common fiscal policy and so on.

To some extent the experience of the European community would be to say: "Yes, that is true. The European community does indeed make a lot of decisions that impose constraints on the member countries, but they have not really lost their identity." The big difference they have, of course, is that they all speak different languages, which is a big form of cultural protection that would not be the case for most Canadians.

Another argument that is made in the report is that a few years ago Canadians' identity was threatened and Canadians were uncertain, but now we walk tall; we have gone through the constitutional crisis and so on and now our identities are firm. I do not know how you react to that kind of argument; it is so soft.

Another one that is more important than the argument that free trade leads to the disappearance of Canada as a rather significant cultural entity is the opposite one, which says that economic decline is even more of a threat to our ability to do what we want to do. If you say, for example, that free trade may inhibit some things we want to do with our welfare state, which is more progressive than the American welfare state, and if Americans start saying, "Hey, some things Canadians do in unemployment insurance," for example, "are putting our industry in unfair competition," there would be that danger.

But again the argument would be that if it turned out that being isolated in this very competitive world meant that our economy was just going to run downhill, we might end up with a situation like the British welfare state today. They still have it on the books, but it is so tattered because of the declining welfare of Britain. I think it is a very complex question.

Mr. D. W. Smith: Okay. I am going to ask the other questions that I asked before. The reason I am doing this is that I heard a speaker from the United States here last week, the president of the National Organization of Raw Materials, if you have ever heard of it. He said that, in the past, free trade has caused wars within countries and maybe wars between countries.

The other thing he mentioned--and I have never seen this any place, but I ask you as an economist--is that the true unemployment rate in the United States today is 50 per cent. I have never read or heard of anything like that and I wondered where he got his figures.

Dr. Simeon: I have absolutely no idea about the second of those. I suppose I should take refuge, like my predecessor, and say I am not a historian either.

My sense would be that trade has certainly caused lots of wars. The battles about imperialism and so on--in one interpretation, anyway--are largely about trade.

Concerning free trade, though, it seems to me it would be hard to point to examples of where the existence of free trade has promoted wars. In fact, if you look at the whole rationale behind the creation of the European community, that was the rationale of Jean Monnet people like him, who said, "If only we can get these countries so intertwined economically, then they will never be able to go to war again." The argument there was that free trade within Europe would very much reduce dangers. Similarly, some people say this is why we have to have more trade with the Soviet Union.

Mr. D. W. Smith: But in that scenario right there with the European community, have they really solved all their problems?

Dr. Simeon: Oh, by no means.

Mr. D. W. Smith: They have come together to some degree, but have they really solved all their problems by all these countries getting together in one block?

Dr. Simeon: No, they certainly have not; nor have they submerged all their countries. They might have achieved that minimal political objective in the sense that it would be hard to imagine France and Germany going to war--although you have the lamb wars between Britain and France.

The other thing we have to ask in respect of the conflicts engendered by free trade is, what if free trade ends up benefiting some regions or some countries much more than others? Then clearly the prospect, and I think there is a worry here, as I mentioned. Free trade may benefit Ontario as the richest, strongest, most diverse Canadian province. It seems to me it may well exacerbate regional disparities; inequalities among Canadian provinces might become greater. Regional development policies may constrain our ability to bring them closer together. Obviously, one can imagine if that were to happen in the long run you would be dealing with a very major and serious problem.

There is one other thing I want to say. An article I read recently made a very interesting long-run point as well. It argued that it would be a lot easier for Quebec or any province to separate if we had free trade with the United States, than if we did not. The reason would be that the economic costs would be a lot less; they would lose less in doing it. That is perhaps one reason why the Parti Québécois was always rather sympathetic to developing free trade, and why the new federalist government is much more akin to that of the Ontario government.

Mr. D. W. Smith: In asking all these questions, and as I read the news and hear economists, I wonder if there are not more fundamental problems within each country than there are between countries. It may be that each country should get its own house in order. I look at Japan, which seems to be doing rather well compared to the other countries in the world. We perhaps should be looking at their system or style or the way they deal with their country's problems before we start freeing everything between each country. The reason I asked those other questions was to bring that forward.

Dr. Simeon: That is right. I do not have a view that says Ontario or Canada could be the classic, insulated autarky. My sense is that the markets are too small, the nature of our products are too much ones which are sold in international markets, in which the prices are set internationally, and so on.

I have a little sympathy with the advocates of free trade, or perhaps concern with some of their opponents. If to oppose free trade is to say,

"Look, we can be self-contained within Canada," I think that is wrong. Fundamentally Canada exists with these tremendous impacts of external forces: learning how to operate with those, how to carve out the areas where we can act autonomously, how to reconcile internal differences so that we do not present a divided face to the world--all of those--are absolutely critical for us in the future.

Mr. Knight: Professor Simeon, I must congratulate you on your brief. It is nice to have both sides of every question explored and alternatives presented.

I listened with interest when you mentioned the effect that such an agreement might have on our national policy with respect to regional incentives. Our country has been built on the premise that "those that trade together will stay together." Of course, those incentives would not be inherent unless one was very careful in any bilateral trade agreement.

12:10 p.m.

I want your comments on an extension of that kind of national policy referring to the international policies we have and the effect that such a trade agreement might have on our national policy of extending aid to Third World countries. In as much as in the short term the United States appears to have changed in the way it extends aid to Third World countries, and as there would be perceived or real nontrade barriers with respect to the Canadian corporations or government--those corporations that are extending aid to the Third World countries, the grants, the incentives they have--would you be aware of any pressure for us to change our international policy in that respect or in any other?

Dr. Simeon: There are two levels there. In a sense, one is what happens to perceptions of Canada in the world. To a large extent Canada is seen as part of North America and very closely allied with the United States but it does have this other strong residue of being somewhat independent and relatively progressive in the operation of international aid agencies and those sorts of things.

At that level, the major package of free trade would undermine that view to some extent. Again, the question is whether it is possible. We could have our completely independent foreign policy and yet be integrated with respect to trade. In the long run that does indeed get harder to do.

The other perception that would be very important here is what the American perception would be; that is, whether they would see it as largely an economic arrangement to be evaluated as such, or whether they would see it even subconsciously as a manifest destiny, achieved peacefully and so on. In which case, therefore, they themselves would come to see Canada as more in their orbit and come to feel that it was legitimate for them to try to pressure Canada more on the positions it should take in issues such as Nicaragua or Star Wars. That would seem to be a genuine possibility.

Mr. Knight: It would depend upon whether in their perception of our international attitudes and policies our policies dovetailed with theirs. If they did not, they would be more likely to make the suggestion in an economic sense.

Dr. Simeon: Yes.

Mr. Knight: They would not want to do so in a political sense but they could achieve the same ends by suggesting that the firms that we purchased from were getting an economic benefit from our federal government and, as a result, we were in a better competitive position vis-à-vis American firms. I see that as a potential down-the-road problem.

Dr. Simeon: While I am thinking about that, the more integrated we become with them, the more vulnerable we become to any kind of retaliatory action they may take, whether for political or economic reasons.

Mr. Knight: The more politically vulnerable we become through an economic mechanism.

Dr. Simeon: Exactly. That is what I mean by security of access. It seems to me, the bottom line to our Canadian demand must be some mechanism that inhibits them from doing that, that really says: "No, you cannot. We have some mechanism which will stop you saying because you do not like what we are saying about Nicaragua, you are going to put some pressure on our auto workers," for example. That comes down therefore to the absolutely critical importance of whatever policing agency we have, and what powers it has. Especially the extent to which it will be not just an advisory body, but one to which somebody could complain about something that Ontario, Ottawa or Washington does and have the power to turn it back.

That is the point I was making earlier. That is asking the Americans to turn over a lot in terms of the operation of their political process--really a lot. Just as we said during the sovereignty association debate, why should we possibly have a two-unit thing making Canadian fiscal or tariff policy or whatever, when it is one third in size. One can imagine the Americans then being highly resistent to an enforcement mechanism having that kind of power. In which case you then have to say, "But if we do not have that kind of mechanism, we are not getting the security of access," which is the best argument that one can make for free trade.

Mr. Knight: Just to finish up, that is one of the great benefits of a committee such as ours. We can get these kinds of dialogues into the public ear. Unfortunately, I do not think we are going to be able to get them into the ear of the public in the United States.

Mr. Chairman: There may be growing interest or concern in the United States.

Mr. Knight: I would like to encourage Professor Simeon to send a copy of his brief to all of the other provinces and the federal government. The kinds of things that I am reading in here make me wonder why some of the provinces, although now are coming to realize that some consultation is necessary, initially seemed to be like dogs in heat as far as free trade is concerned.

Mr. Lane: My questions will be coming from a different direction. A number of people I have talked to, and in the general public, are worried about the word "free" trade. I think free is the wrong word; it should be freer trade. I do not think that you and I ever expect there will be free trade between the two countries. The word may be worrying some people more than it should because there already is activity.

Another thought I have is that I do not think we can just say, "I am opposed to freer trade" or "I am opposed to free trade," and stick our heads

in the sand and do nothing because at this point a large number of protectionist bills are before the US administrative body. If we do not get into dialogue about long-term agreements in trade, then a certain amount of these bills are going to be passed and they are going to have a detrimental effect on industry in Ontario and Canada. We really do not have any choice, do we? We have to get involved in the dialogue. I do not think anybody would expect free trade as such to come out of the dialogue. It would be freer trade. I would like to have your comments on that.

Dr. Simeon: I agree with that very much. Sometimes the word "freer" is used to fudge the issue and make the issues a little less clear cut, but I absolutely agree with you.

The point I was trying to make a moment ago was that we cannot bury our heads in the sand and pretend that Canada is a self-contained, isolated community, able to build on its own internal market. In particular, we cannot ignore the United States. What was it in the paper today? That something like 75 to 80 per cent of all Canada's exports and something like over 90 per cent of Ontario's exports go to the US. Therefore, as you say, the protectionist tide has to be of absolutely critical importance.

I agree very much that we have to get into the dialogue. That is why the trade-offs here are difficult. They are not only hard to weigh in the sense of it being hard to predict what would happen under different scenarios, but also, trying to weigh these political and cultural factors versus the economic ones is like trying to compare apples and oranges.

On the whole the economists' models tend to look at free trade a little bit in the abstract, "Let us imagine we have no tariffs and no nontariff barriers and see what happens." That is very important. Quite clearly, we will end up with some form of freer trade. We need to start looking at the alternative mechanisms and how different kinds of alternatives might have different effects, on the assumption that we cannot, in any case, predict with certainty the effects of what mechanisms are going to get set up in a free-trade arrangement to ensure that it can be modified as time goes on to ensure that both sides are benefiting and so on.

12:20 p.m.

Yes, absolutely; I very strongly believe that Canada has to do something to reduce its dependence on US trade, but that dependency is real and there is no gainsaying it right now. The protectionist bills are a big problem which is why my sense of what Canada's objective out of this has to be that security of access, which is to limit the ability of Congress to pass those kinds of bills.

Mr. McFadden: Professor Simeon, I want to compliment you on an excellent paper. I am sorry I did not have a chance to read this before so I would be more cogent in my questioning. It was absolutely first-class. It is the only paper of its type that we have received.

In particular, I should compliment you on your wisdom in agreeing with the analysis of my learned friend, the chairman of this committee, and myself in terms of our view on the ability of the province to undermine, if not veto, significant sections of treaties where the particular subject matter relates to powers strictly limited to the province. That is one of the complicating factors. You touched on that very well.

One of the things that struck me about your paper, which is very well

taken, is the whole constitutional question of the appropriate role of provinces in external affairs. This has been a growing subject of concern for a lot of people. It is a matter that should be very carefully reviewed. From my point of view, I am a Canadian first and an Ontarian second. Actually, that is probably quite typical of most Ontarians. Surveys have shown that people in the bulk of the other provinces tend to think of themselves first as Quebeckers or Albertans and second as Canadians.

Dr. Simeon: Actually, it is pretty much equal.

Mr. McFadden: However, it is less than Ontarians.

Dr. Simeon: Yes.

Mr. McFadden: I have a real concern. It is not just related to free trade. This issue has brought it to the fore. It is the role of provinces in external affairs and the development of international trade policy. We run the risk that we could compromise the nation so badly in terms of our ability to negotiate credibly internationally that we could hurt the country. You touched on that. It is something that is going to merit a lot more study.

While there could be certain short-term gains with regard to this agreement or even with the General Agreement on Tariffs and Trade, we ought to think of the implications for the country of the provinces being up front and centre in the negotiating process. I cannot think of another nation state anywhere in the world that permits its constituent states or provinces to be at the negotiating table. I am not saying they are not consulted, but it would be quite a departure. It would severely impair the ability of the Canadian government, in the long run, to function as a national government. Therefore, the point on that in your brief was very well taken.

Dr. Simeon: Yes, although I do not have a solution. The federal government's ability is impaired to some extent now. To allow it to speak absolutely with one voice abroad probably does imply an extension of its power to implement. What I call the provincialist or collaborative view is one which says that Canadian national interest is an interest that comes out of 11 governments. That is exceedingly difficult to bring about, as we have seen in the past. Myself, I am very ambivalent, I tend to be a very ardent provincialist kind of federalist, I suppose. I really agree with you about the difficulty of these kinds of dilemmas.

Mr. McFadden: There is a second matter I want to raise briefly with you. On page 15, you made the point, "Many of the instruments of regional development policies, especially tax incentives, loans, and grants, are just the sort of nontariff barriers a free-trade agreement would be designed to catch." You made the point further.

There is one thing we have been trying to determine and I have raised it on several occasions. Are you aware of any studies that indicate the relative level of these various economic incentive programs between Ontario and states in the United States. My impression from dealing with American states is that if one compares Ontario with some states, a number of American states have far more generous regional development incentives than we do in Ontario.

I am not saying that applies to all provinces, but if one compares Ontario to the other states I am not at all sure that we would be unfavourably dealt with. If anything, it might be a help to Ontario. It seems to me the major thing that attracts industry in Ontario today, and it has been

government policy for some time, is the infrastructure rather than tax grants, tax forgiveness and grants of various types.

Dr. Simeon: That is right. That comparison of the United States with Canadian provinces is one that I do not know if anyone has done. I could not agree with you more. I think it is a vital thing to study. It is something I would actually like to look at myself some time.

The general view that most students of Canadian federalism have is that the provinces comparatively are much more important economic players than are American states. There are some obvious respects in which that is true. Provincial control over resources and so on is quite extraordinary, while American trade and commerce power is much more sweeping than it is in Canada. Also, the Canadian provinces have relatively much more money to spend than the American states do. Their fiscal weight in the system is very much greater than that of most states.

That being said, one thing we have seen over the last few years is a bit of revival or growth of American economic development activity at the state and municipal level. That partly again is that with a conservative government in Washington backing off these kinds of things, the states have jumped into the breach to some extent. Wherever you go in the United States now you see economic development agencies within the state government. Many of the states governments now have entered into international representation abroad. The American federation in cities send delegations all over the world all the time.

A couple of years ago the American Council of State Governors passed a resolution--I mentioned it in my written paper--calling on the government of the United States not to make any international trade agreement which would constrain the ability of the states to pursue their own economic development policy.

While I think it is true that Canadian provinces still are much more economically aggressive than American states are, there is quite a lot of catching up going on there. There are a lot of imaginative fiscal techniques being used by states and localities where they have interest-free municipal bonds. I am not sure of the details, but you might have someone look into it, whereby money raised through those, which is easy to raise, is then lent again to various kinds of development consortiums and so on.

I think it would be very important to know where Ontario and direct immediate competitors like Michigan and Illinois would be at the end of the free trade or a freer trade round. It would be interesting to know what they have and what we have in terms of ability.

Mr. McFadden: May I ask one final question? We are almost out of time, and Bob is waiting to ask his questions. You say on the last page of your submission, "Within the Canadian context, Ontario with its stronger existing infrastructure and its proximity to the US markets is probably in a stronger position to compete than most other provinces."

Can you expand on that very briefly? How important a fact do you think that is in terms of your view on the impact that free trade will very specifically have on Ontario and its position? As I understand it, what you are saying here is that Ontario and its industry, as it is now structured, potentially could benefit substantially, depending on all the various factors we have talked about. Can you expand a little further on why you reached that conclusion here?

12:30 p.m.

Dr. Simeon: I probably should not have stated it quite that way because I am not enough of an economist to make that point with any certainty. What I had in mind when I mentioned that was that eight or 10 years ago what we saw was a huge shift in terms of trade, generally in western countries, towards resource producers and away from manufacturing producers like Ontario. We thought that Ontario, and indeed the whole northeasterly United States, was in a terrible long-term decline and that the parts of the world and parts of the country which were going to be strong were the resource producers. What has happened in the last two or three years has been absolutely the reverse in terms of trade. All of a sudden, it becomes good to be manufacturing.

I see no reason why that would not continue. In addition to the manufacturing industry, and again Professor Harris's paper makes it very clear, we know that services in Ontario are by far the largest sector at the moment. Probably that is the one that is most important. Canadian services, such as banking and so on, are so centralized in Ontario. The Canadian Commercial Bank and the Northland experience have tended to reinforce this Ontario dominance.

You mentioned infrastructure. It seems to me Ontario has that rich, diverse, complex location of markets that give it that long-term resilience. It also has a lot of agriculture, mining and so on as well. Compared to it, all other economies are more specialized, more volatile, further from markets and do not have quite the same infrastructure.

Also, I had in mind the recovery in the United States which preceded ours and has gone further than ours. One of the interesting things to see is how much of that recovery is in the northeast. I am told the greater Boston area now has an unemployment rate of under three per cent. Again, it is that same mix of strengths such as the infrastructure, educated work force, relationship to markets, all of those things. I say that not as an economist.

Mr. Chairman: Mr. Mackenzie, can you make your questions very brief, please?

Mr. Mackenzie: I will be brief. I also want to congratulate you on the brief. I think it has raised a number of additional questions that we really had not taken a look at as a committee.

My question is a little different. I want to get your reaction to comments that have been made by a number of people before this committee. On both sides of the pro and anti-free trade issue is the lack of industrial strategy in this country and the effect it has in trying to enter into any comprehensive free trade talks.

I am not sure it was an articulation as much as a challenge in the Macdonald Commission report, where it stated very clearly that we either move to comprehensive trade talks or we may be faced with a planned economy in the province as an alternative. I would be interested in hearing your comments on that.

Dr. Simeon: Industrial strategy has a lot of different names. Obviously, the national policy of the 19th century was our national policy until after the Second World War. After the Second World War, you could say it was Keynesian economics, the welfare state and the promotion of an open international economy, for which Canada pushed very hard. It was a big

supporter of the General Agreement on Tariffs and Trade and the International Monetary Fund and that sort of thing. That was the national policy.

I suppose one could say that free trade is also a national policy in that it says the way in which we drive our economy is by reliance on the market. That is where free trade in the global sense is the logical framework. Many arguments in favour of it are precise. Even Canadian market theorists would say, "It is great if it stops regional policies because they are a bunch of inefficient, distorting policies anyway." People who want an aggressive interventionist government are frightened about the constraints, but people who want the market say, "Maybe this is the mechanism we can finally use to police Canadian governments without being so--"

Mr. Mackenzie: It is ideology.

Dr. Simeon: It is clearly an ideological issue here. It is very much so.

The standard view also is that because free trade is a market-oriented strategy, and for the reasons I mentioned, therefore our ability to engage in the kind of industrial strategy which selects winners and cushions losers becomes much less easy because that involves subsidies, although I guess Richard Harris, in his work for the royal commission, did argue that you can have free trade and an aggressive industrial policy. He argued that is not an absolute contradiction.

My sense is that it is and, as I said in the paper, if you go far down that road you say our national policy is the open international market. We may have considerable ability to cushion and delay some of the effects of that, but it really is a fairly explicit way of saying that we do not believe it is possible for governments in general and for Canadian governments in particular to decide what they want their economies to be like and get there.

Mr. Mackenzie: For the first time in my life, the more I watch Mr. Mulroney, I may have to agree with that.

Mr. Chairman: Thank you very much, Professor Simeon. As the last two questioners have indicated, you have raised and addressed a number of issues that we had not looked at. I think it is fortunate that we decided to take a look at them and we should probably continue to look at them more thoroughly. I appreciate very much your reports. They have been very helpful.

Dr. Simeon: Thank you very much for having me.

The committee recessed at 12:36 p.m.

E-48

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, APRIL 9, 1986

Afternoon Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS
CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
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Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitutions:
Henderson, D. J. (Humber L) for Mr. Cordiano
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes
Laughren, F. (Nickel Belt NDP) for Mr. Morin-Strom
McLean, A. K. (Simcoe East PC) for Mr. Hennessy

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witness:

Individual Presentation:
Baranson, Dr. J., Associate Director, School of Business, Center for Research on Industrial Strategy and Policy, Illinois Institute of Technology

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, April 9, 1986

The committee resumed at 2:16 p.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: This afternoon we have with us Dr. Jack Baranson. Please come up and make yourself comfortable. Dr. Baranson, as members of the committee will be aware, prepared a very interesting report for the Ministry of Industry, Trade and Technology. That report was released by the minister in November 1985 and has caused considerable debate in this country and in this province. It is with real anticipation that we look forward to hearing from you today.

DR. JACK BARANSON

Dr. Baranson: Was it my paper or the issue in general that caused considerable controversy?

Mr. Chairman: Your paper evoked a great deal of comment.

Dr. Baranson: I had my wife read the paper beforehand. She is one of my best critics as far as I am concerned. I should have followed her advice about one remark I made in the paper.

As an economist, I grew up in this business of free trade and infant industries. I spent about eight years with the World Bank. I have worked in about 60 different countries. Everywhere I went where the infant industry argument was made I saw what I came to know as structured pygmies. I remember one of my colleagues sent me something from the op-ed page in the Globe and Mail. I was touted as a so-called expert on free trade and the words "structured pygmy" came back at me. I should have been wiser, followed my wife's advice and taken that out.

I expected to have an informal discussion at lunch, but I am learning now there is no such thing as a free lunch. I have not prepared a formal presentation. I gather some of you have seen the paper, which has had some notoriety. Perhaps you have read some secondary reports on it in the newspapers. I will take about five minutes, Mr. Chairman, if that is all right with you, and give you the highlights or the nub of what I thought was worth saying, what might be useful input to your ongoing discussions of this issue, rather than a definitive sermon from the mount, and what implications these insights might have for further deliberations on your part.

The ministry asked me to focus on the likely response of US corporate behaviour to a bilateral free trade agreement. I took almost an assumption that this would go all the way, that it would include such things as the US side is now concerned about, nontariff barriers, and, most important for Canada and this province, the question of offset trading in the defence area and the auto pact. A lot of my remarks have to do with not freer trade but the eventuality of going pretty much further and tearing down some of the buffers that segments of Canadian industry now have to produce for the US market.

The thrust of my paper, I hope, is the consideration of a new element I tried to introduce into the discussion. That is an area I have been working on for the last two or three years, the whole question of automation of industry and the effect it is having on manufacturing, competitiveness and productivity throughout the world. As much as the probability or the likelihood of free trade or trade liberalization, the forces of competitiveness that will be introduced by the new automation and new manufacturing systems are a consideration here.

The paper talks about the clustering of some of the new automated plants. This is happening now all over the world. The Japanese are in the forefront of this. Japan is automating at about three times the rate of the United States. The number of installed sophisticated robots per industrial worker is three to one in Japan. In countries such as Sweden, interestingly enough, for very different reasons, the proportion is seven to one in the United States. They have offset certain problems of deficiencies in labour discipline. Because they are very dependent on staying competitive in world markets, Swedish firms have had to automate at a much more intensive rate to maintain their position.

This question of the automation of Canadian industry in response to the reality of the implications of the emergence of automated factories involves the introduction of flexible machining systems into automotive, machine-building and electronic industries, so Canadian industry can fend for itself in the new global economy. That new force is just as important as the prospect of trade liberalization. It is another way of talking about intensified competitive forces hitting Canadian industry. To what extent will they be able to contend with that force without further buffering through protectionism or whatever?

People who advocate free trade argue about the opportunities that would be generated for Canadian industry to access US markets under bilateral arrangements. Aside from the fact that tariffs in the United States are already at pretty low levels, six per cent or so on average, the big question here is the resiliency of response of Canadian industry to new opportunities. In terms of what I was saying before, to what extent will Canada be able to contend with the new forces of competition under continuing trading relationships, if further protectionism does not set in?

I mentioned Northern Telecom in the paper because I am fairly familiar with that company. I know about them from North Carolina where they are located. More than half their business now is done in the US, more than $5 billion. There are special considerations as to why Northern Telecom was able to do what it did. The company came in at a very opportune time when the telecommunications industry was being regulated in the United States. AT and T had become complacent and was not very interested in moving to the new technology of certain of the PBX systems.

Northern Telecom saw an opportunity to move into the market with its new digital equipment and get the edge on AT and T. When the US deregulated, Northern Telecom had the further edge of being able to compete in a market that was no longer controlled by AT and T. There were some special circumstances, aside from the fact that it had the lineage of Western Electric and Bell Canada and so on, but it still indicates the case of a firm which is now world class. This is the main point of what I tried to say.

Canada's salvation lies in an ability to generate world-class enterprise. It has to fit into the clustering of the new automated

manufacturing occurring throughout the world. A firm such as Northern Telecom becomes a nucleus for this kind of clustering. If you were to look into the products sold in the US by Northern Telecom, my guess is they are probably nearly half Canadian content. The ability to penetrate a market and to compete internationally is the way you retain your core. They may only retain half of the business but half of it is Canadian and half of it is produced in the US. That ability to be world-competitive and to penetrate world markets is fundamental.

As a small aside, the economy in the United States in this respect is no different than in Canada, but by virtue of size alone, its problem is 10 times that of Canada. It faces competition today not only at the high end of technology from countries such as Japan but also at the low end from countries such as Korea and Brazil. The ability to spread technology extensively and at a very rapid rate is being taken up by the newly industrialized countries.

The resiliency of response on the part of Canadian firms has to be an ability to respond to technological change and to the kind of economic fluctuations in exchange rate and otherwise that occur. There is no way of buffering against that. The longer-term solution to the problem of Canadian industry fending for itself in the world is to create Canadian-based, world-class enterprises. In my mind, it is the only ultimate salvation in this regard in the kind of world we are now entering, or which is already upon us.

In the matter of negotiation, I stressed the point that in the area of offset in automotive, if that comes into question, it would be the height of folly not to include some sort of progressive reduction of these agreements. To do this on a massive scale would be catastrophic to the industry. I do not have the numbers but I am sure the amount of production involved in these two areas is very substantial. You need time to phase out the old dependencies and to create the new capabilities of enterprises to compete more effectively in the future.

Enough said. I will be glad to respond to any comments or questions you may have.

Mr. D. W. Smith: You said that Japan is three to one more automated than the US, but if I am reading the paper correctly, it still has an unemployment rate down around two per cent or three per cent. How does that country, within its own system, keep unemployment so low and yet be such an automated country? Can you explain that?

Dr. Baranson: Growth. If you have an economy where there is a limited pie and you introduce automation and displace workers, in effect you lose employment as a result of automation. If the pie becomes bigger, however, the workers who are displaced are absorbed in other activities. Do you follow me?

Mr. D. W. Smith: I think I do, but the unemployment rates in the United States and Canada are much higher. How do you see us getting back in there without a fundamental change within our own countries?

2:30 p.m.

Dr. Baranson: It is a little like Alice in Wonderland. The key to the answer here is increased productivity. There is no way to get around this. You have to automate at the rate at which that your competitors are forcing you to automate. If the US and the Canadian automotive industry do not want to

lose jobs, they have to at least maintain or to expand their market shares. The Japanese, by automating their automotive industry and by gaining market shares, have offset even in the automotive industry. They have not lost many jobs in automotive because they have expanded markets worldwide.

The only answer is to compete, not only internationally but also to hold jobs in your own country without protectionism. In order to stay ahead, you have to grow, remain dynamic and maintain productivity increase, a good part of which now comes from the new automation. Like Alice, you have to run just to stand still. It is no easy task.

Mr. D. W. Smith: How long will it take the US to catch up? Can it ever catch up?

Dr. Baranson: The catch-up game is a hell of a lot more difficult than having a long-range look at things and saying, "Ten years from now we are going to have to do this" and starting to tool up. If you wait 10 years and you suddenly find others have pulled ahead, you have a very difficult job. Part of the US problem now is that it is playing catch-up, which is a very difficult business.

Mr. Laughren: Dr. Baranson, it is good to have you here.

The only thing that has preoccupied me more than sheep in recent years--we will not go into that today--is the whole question of import replacement. In a country like ours where we have structural vacuums or deficiencies in the industrial manufacturing fabric, such as electrical products, machinery, processed foods, I worry about free trade forever putting a halt to self-determination in filling the existing vacuums or completing the weaving of that industrial fabric. I worry about free trade putting a crimp in our ability to do that.

Dr. Baranson: This is the dilemma between infants and pygmies. In free trade theory import substitution is perfectly justified if you use a period of buffering to allow the infant to mature, grow up and fend for itself. If the buffering is used to stunt that growth and the industries never evolve and grow up, you are in for trouble. There has to be a policy by which infants evolve. Protecting or nurturing those industries cannot be indefinite.

This is rampant. When I worked in developing countries, this was the big problem. When countries like Brazil or Mexico, which had an automotive industry, started in 1955, they were going like gangbusters for about 10 or 12 years, until the late 1960s. These industries were growing at an average real rate of 25 per cent per year. Suddenly they found they had excessive import substitution. They had created too many protected component industries. Not only had they priced themselves out of world markets, but also the cost of the vehicles to the consumers was two to three times the cost internationally.

By the late 1960s, they had to implement new policies to stop excessive import substitution--which means industries that are too protected and producing too inefficiently--and replace that with specialized manufacturing of components and parts for international markets. They had to substitute export expansion for import substitution. It was difficult. Brazil and Mexico even now have plants that used to produce 20,000 engines and produce 400,000 for world markets, but only produce 10 to 15 per cent for the internal market. This transition from import substitution to internationally competitive segments of industry is part of the evolution. You want to be very careful not to prolong that policy for too long.

Mr. Laughren: I do not understand why our trading partners under a free trade agreement, when they look at Canada or Ontario in this case--I will give you the very obvious example of mining machinery. We are third in the world in the production of minerals and first in the importation of mining machinery, although we do produce some--how do we argue with a trading partner that we need protection for this infant industry selling to a mature industry, namely, resource extraction? Why would our trading partners let us develop mining machinery? Why would they not say to us: "That is not done under the rules of the game of free trade. You have a mature industry there. Why should we provide you with any protection?" In fact, we do not have a developed, mature industry.

Dr. Baranson: They do say that. I studied a similar problem in Mexico in regard to oil drilling equipment. The Mexican government had some good policies that insisted on the indigenization, first of production and eventually of design engineering. The Gray Tool Co. in Texas eventually had to co-venture with a Mexican firm, not only to share production responsibilities and give them a portion--this is what you call your export; you have a special name for it. The Mexicans developed it so that the Mexican counterpart was producing a portion of the oil drilling equipment for world markets. Eventually they began producing things such as a certain cable they were licensing with Anaconda. Anaconda did not want to give them something and the government went ahead and provided some funds for it. Within two years they had a cable product that they were selling internationally.

If it is a matter of national policy, it should be built in that there are certain industries you would like to develop. With whatever your international lawyers tell you is within the General Agreement on Tariffs and Trade, you ought to do whatever is necessary. Part of the tax laws and foreign investment laws should be shaded that way. This is an age of coproduction and technology-sharing and you want a piece of the action. You do not want to become just a branch plant. Eventually you want to move to the self-contained ability to manage and generate technology in selective areas. You cannot do everything, but there ought to be selective areas. You will let the marketplace do some of this, but I think it is perfectly legitimate to say that. That is the counterargument. If I were arguing it, that is what I would say to them.

Mr. Laughren: Are there particular problems under free trade for what I will call an underdeveloped developed country? Perhaps that is my own prejudicial view of our country, but I view it as a less developed or underdeveloped country. Are there particular problems for a country such as ours under free trade because of trying to sell that argument to a trading partner?

Dr. Baranson: I have difficulty focusing on an answer. I come from Chicago and if you want to talk about an underdeveloped country in terms of urban management, I think Chicago is well in that class. I would not feel too badly about it. There are pockets of this everywhere. Some of the more advanced countries have plenty of these pockets. I have difficulty answering the other part of your question. I cannot put my finger on it. Can you make it a little more specific?

Mr. Laughren: I can try. My problem is that I can see this for a classic LDC, a less developed country, when it is clearly a Third World country and it is clear there needs to be protection in the national interest. Even hardline free trade partners would understand that and go along with it. However, in a country such as ours that has these industrial gaps, because we

are seen to be developed, and relatively speaking we are, are there particular problems that make it more difficult to develop our industrial structure further?

Dr. Baranson: Let me see whether I can get a handle on it. Somewhere in there is a very good question. I used to have a button that said: "The answer is technology. Now what is the question?"

The Japanese have turned this around. They look 10 years down the road. In 1970, they decided that knowledge-intensive industries were the way to go and had the whole opening to this new office and factory automation. They were certainly not in the class of underdeveloped countries, although at one time, a few years before I joined the bank in the mid-1960s, they were getting loans from the World Bank. The Osaka to Tokyo line was funded by the World Bank in the 1950s. They graduated very quickly from being underdeveloped.

2:40 p.m.

By the way, there are two classes. People talk about the Third World and the Fourth World, the LDCs and the the NICs, the newly industrializing countries. Countries such as Korea, and to a large extent Brazil, are in a different class to countries that are just begining to industrialize. For countries in the NIC and beyond stage, instead of thinking about a need for further protecting or nurturing an industry, the Japanese think about sunrise industries and government public policy sees to it that in 10 years it will be tooled up to move into that area. Canadians ought to think that way. They ought to think about sunrise areas. I do not see any reason why it cannot be part of the mining industry.

I remember doing some work--there was company here called Joy Manufacturing Co. At one time, it was pretty good in the mining area. The problem with some companies is they do not maintain their dynamic. We see a lot of Chicago-based firms that just have not kept up. For a long time, they fooled themselves that the Japanese would never catch up with them, and by the time they did it was too late. Joy may have been one of them. At one time they had an edge. They were at a certain level in mining. I remember work in Colombia. The Joy Manufacturing people had something nobody else had.

Mr. McFadden: I found your brief interesting when I first got it about three or four months ago. I recall using it to question a couple of witnesses earlier. It is nice to meet the author of the study. One of the things that has struck me about your report and its recommendations is that Canada probably is going to have to do a lot of what you say here whether or not we have an agreement with the United States, because of the changing world economic order. Is that not accurate?

Dr. Baranson: Yes, very much so.

Mr. McFadden: What you are doing is giving us a guide with regard to what we should be doing as a country, both government and industry, to compete in the modern world. I gather you are suggesting that an agreement with the United States would accelerate the process and force us to make those adjustments in the nearer term rather than over a longer term.

Dr. Baranson: If not astutely conceived and negotiated, it could be counter-productive by forcing you to do certain things in the next 10 years in dismantling certain segments of industry and not doing enough in a positive movement towards world-class industry. It might force you to do things in a

10-year period that were counter-productive and not as beneficial as they should be.

Mr. McFadden: You say counter-productive.

Dr. Baranson: To the extent that they dismantled too rapidly the offset in the automotive area and you did not have a chance to build up a replacement industry, that would be counter-productive and detrimental; the pace, if nothing else.

Mr. McFadden: What we want to do is control the pace.

Dr. Baranson: Pace is one. There is the quality of the direction in which you go. There is the question of increased liberalization and measures to reinforce the elasticity of response of Canadian industry to take advantage of new trading opportunities and to make sure the measures and resources and so on are there to reinforce that, so that the industries which come up do so fast enough in relation to the dismantling effect of free trade.

Mr. McFadden: That is one of the things that has been valuable about this whole discussion in Canada. It is bringing to the fore for Canadian industry what it is facing in the world. We lived for a long time in a very protected cocoon in this country, partly because our proximity to the United States gave us quite a large foreign market that was very near. In many ways, even the opening of this discussion has had that kind of effect. It has made Canadian industry realize it has vulnerabilities, but at the same time, there are opportunities and we are going to have to react more rapidly than we have done historically.

Dr. Baranson: The strongest argument for free trade is that it is what Canadian industry needs, that it needs the cold, clear breath of competition. The question is the resiliency of the response. Unless this is thought through and you understand that better, in a Toynbeean historian's sense the challenge may be overwhelming and the response inadequate. It may destroy more than it creates. In free trade that is a big argument, that you need the cold wind of competition.

It is like a star hockey player. I am 35 years old and I say, "Gee, all I need is the cold breath of an ice rink to become a hockey player." If I am determined to do that at the age of 35, I have to do some more things with regard to getting ready for that. If it were necessary for my survival, I suppose I could become a hockey player; I would try to anyway.

Mr. McFadden: For the Maple Leafs.

Dr. Baranson: My wife would--do not use that analogy. You will get into trouble.

Mr. McFadden: We have the Black Hawks playing tonight against our Leafs. The thing that struck me is that rather than the 35-year-old hockey player, from what you are talking about, pygmies and infants, Canada would be closer to the 16-year-old who may get thrown in the National Hockey League. The question is, will that player be able to play?

Dr. Baranson: Playing book, I would take a chance with the 16-year-old rather than the 35-year-old. He would have a chance anyway.

Mr. McFadden: It depends on how you look at our development.

Dr. Baranson: You are right. It is relative.

Mr. McFadden: You talked about Japan and the expanding pie and what you hope for as you move into automation and so on. Gradually, the level of economic activity will be such that it will generate new jobs and deal with the workers who are displaced and the new people coming on to the market.

One of the problems we face as a country--maybe it is a temporary situation, but it looks like it is not--is that the engine for economic growth for this country traditionally has been the export of natural resources, whether it be minerals, forest products or oil and gas. From everything we can read now, it looks as though that is not going to be as productive as it once was for Canada. It may not be as much of an engine for growth as it was. It could be severely retarded in the years to come.

If those economic prognosticators are right, we have to look for other areas to get the pie expanding in this country; otherwise we are in for a stable if not a contracting pie. It is very seldom that things stay the same and just sit there. Usually, they are either coming or going out or moving in. There are some pessimists who say that we in this country face the possibility of a contracting pie rather than an expanding pie.

If we are to get into a situation where we will have an expanding pie so we can introduce automation, but at the same time create the additional jobs we are going to need for the young people who are coming on to the market as well as provide employment opportunities for older workers who may be displaced, how do we get into that situation? You have talked about the steps we need to take over the next 10 to 20 years. We are in a situation, as a country, where the adjustments are being forced on us. To some extent the developing countries have caused us to have basically a fairly stable pie for the time being. Related not just to your work on this paper, but also as someone who has worked for the World Bank, how would you see Canada positioning itself as a country world-wide, dealing past the United States but including the United States in the equation, in order to have an expanding economic pie?

Dr. Baranson: In response to your question, the thrust of the paper is increased dynamics and flexibility of response of productive sectors. I do not care whether it is energy, a declining industry such as textiles, or the electronics industry that now is near the forefront of development. Each of these has to take account of some of the basic changes I have talked about, the globalization of markets and production and the need to be able to function globally, both in terms of competitors coming in and hitting you in the home market and you maintaining shares abroad.

2:50 p.m.

The marketing part of this is very important. At luncheon, I mentioned one of the activities I was engaged in at American Telephone and Telegraph Co. It now is trying to reposition itself in services. Traditionally, it was a company that was product-technology driven and it had no competitors before deregulation. That meant that everything Bell Laboratories dreamed up and Western Electric helped to produce, the customer would buy. They figured that any of the new gadgets they came up with, including the transistor, would be great. Now they are finding that they have to go out and find out. They have competitors who are coming in and who are very sensitive to new customer.

needs. There is an explosion of response to customers. There has been this reorientation from production-driven, from this, "We have a good quality product, and just as with a good mousetrap, the world will continue to beat a path to our door. That has changed. The market-driven orientation and the ability to market effectively at home and abroad is the answer.

In textiles, the United States has lost share. It has been down to 23 or 22 per cent and it will probably go down to about 17 per cent. However, the industries that remain are very high-technology industries. Talk about a high-tech industry; there is nothing like the synthetic fibre industries. Burlington Industries Inc. and people such as that are very high-tech industries.

You have to revitalize and increase the technology production dynamics of declining industries, if you want to retain segments of those. In industries that are on the upswing, the marketing dimension of this, the ability to invest and market effectively, is as or more important than the old production thrust used to be, the feeling that if you produced a good product, you could sell it. At the beginning, we had a home market and relied heavily on that.

The common denominator here is to look at all industries, including the world resource industries. If you look into those, you will find there are segments you can retain, but you can only retain them if you are dynamic technologically and you maintain aggressiveness in the marketing distribution end. Our own resource-based industries, Exxon and others, are having great difficulty in repositioning themselves in ways they can remain solvent and not be reliant on their basic commodities in the old ways.

Mr. McFadden: I will just illustrate your point and then I will pass to my friend, Mr. Ferraro.

I was talking with one of the executives of McGregor Hosiery Mills in Toronto. Maybe a lot of people in this room are wearing its socks today. They have heavily automated. They now supply the house brand for Sachs in New York; it is a McGregor sock. They told me that if they cannot export to the United States, that plant will not remain profitable. They need the American market to get adequate production runs and everything to keep it profitable. Everybody is against a lot of this discussion in this area, but the problem is they need the American market to survive.

Dr. Baranson: That is not an argument for liberalization, is it? They did that without it under the old system. The thing that did it was their aggressive marketing and technology.

Mr. McFadden: I was agreeing with your point. That is the kind of industry and thrust we need even in our so-called ailing industry.

Dr. Baranson: That is right.

Mr. Ferraro: I have three questions and they are not too lengthy. The first one deals with the potential of a Canada-United States free trade agreement. Unless I missed it, you made no mention of the fact that as a prerequisite to such a hypothetical state, we would have to get rid of the interprovincial barriers we have now. For example, you cannot sell beer in a province unless you have a factory making it in that province.

Dr. Baranson: As a prerequisite to what?

Mr. Ferraro: To a free trade arrangement. For example, you cannot sell anything in Quebec in certain areas unless you have Quebec labour content.

Dr. Baranson: I was asked about beer at lunch and I am afraid I am a Perrier drinker. I do not know very much about the beer industry. Nearly everything I know about the beer industry I learned at lunch today, so I do not think I could be an expert witness in that area.

Mr. Laughren: That does not usually stop people around here.

Mr. Ferraro: Is it not unusual, if not impossible, to suggest that we are going to have a relationship with the United States based on free trade when we do not have free trade among our own provinces?

Dr. Baranson: I gather that was one of the things that came out of the discussion. We talked about world-class industry and it turns out the beer industry is province-class; it is not even national-class. Implicit in your--

Mr. Ferraro: That is a prerequisite.

Dr. Baranson: I am sure that is part of it.

Mr. Ferraro: This question has two parts dealing with your policy implications. You elaborate in your recommendations. You say, "The Ontario government should expect extensive withdrawal of certain US-owned branch plant investments that no longer need to remain in Canada in order to bypass trade barriers." Why did you take that position and not the position: "We are in there because we want access to Canadian raw materials and/or markets. We have spent so many dollars in capital expenditure. We can get 28 or 29 cents on our buck"? Why can you not use the argument that they are going to stay there? Why would you say they are going to pull out?

Dr. Baranson: I think that is a very valid question. I wish I had had more time and resources to do some empirical work. I tried calling a few corporate people I know and said: "What is going to happen? What are you going to do if this thing is liberalized?" I found the kinds of answers I was getting were the kinds of answers they wanted me to hear rather than what they thought. Therefore, I had to do this from what I know about the world and multinational corporations and how they function.

In one sense, the simplest answer is that this is an unravelling of why they came here to begin with. They did not come here because this was the least-cost procurement or a way to reach the market. They came here because it was the condition of entering the market. These branch plants they built here are essentially creatures of this necessity. If you remove this necessity, the creatures will wither away.

It is true that there are certain plants that will stay here, once they are here and have sunken costs. We were discussing it at lunch. General Motors has made a new investment. The big factor is having a reliable work force here that is willing to negotiate work rules to the comfort of the company. This is an asset. It is something they do not have in the United States. They would be willing to pay a little more if they had to. As long as they get these work rules and good, quality work and a work force they can negotiate with, that

becomes an asset and some of them will continue, I think, even if you remove that.

Over time, there is the fact of removing this necessity and also the new automation. The rationale of the new automation is to do the clustering. We are finding now that the clusters are happening. The governor of Illinois is fighting desperately to create a corridor where the clustering will occur so that he does not lose it all to the southeast. The new clustering may well move away because of the deterioration of infrastructure and so many other things in the old middle heartland, Canada included.

For both those reasons, I rationalize that this will happen. If you really want a serious answer, you ought to do a little more empirical work in this area. Frankly, I have not done that.

Mr. Ferraro: I appreciate your comment. As a derivative of that scenario, where there is this clustering and we lose some American-owned factories and what have you, if there is a free trade situation, is it not a real possibility that any loss from US-based consortiums or corporations would be offset by foreign investment? I am thinking of that, particularly if the exchange rate on the buck stays the way it is. If I were in West Germany or Japan and wanted to get access to the North American market, it could be a hell of a lot easier or cheaper for me to come to southern Ontario rather than certain parts of the United States--I do not know about the south--knowing I have 28 cents to play with at the moment.

Dr. Baranson: Again, that is an empirical thing. You would want to see how much of a cost advantage on the projected basis there would be and what would be the relative value of the Canadian dollar. I mentioned the rationale of the necessity for clustering. The new automation requires that you have very tight, close control of your suppliers, the propinquity, not only in distance but in responsiveness of suppliers.

The Japanese coming over are doing as much as they can to bring the suppliers with them because they want them near and they want them reliable. Too many of American suppliers are not responsive enough. My guess is that with Canadians in certain respects it would be the same kind of thing. It is the new rationale of clustering that will cause this drawing into clusters. Whether or not Northern Telecom or others create clusters here that will be sufficiently attractive to have this propinquity and responsiveness of suppliers, that is the thing you have to go for. You would have to query people like Northern Telecom in depth to see what kind of clustering they get and what kind of future there is for that kind of clustering. That is where I would see growth nodes. The reason is the one I told you; I think there is a necessity to cluster and they are going to go where that can be done.

Mr. Ferraro: I am not quite sure you answered my question. Would we not get a lot of non-American foreign investment as a result of a free trade relationship?

3 p.m.

Dr. Baranson: If the new automation and the clustering were the only consideration, I do not think you would get it. You are saying that the investment cost here may be lower and projected to continue to do that; that would be a considering factor. My guess is that if they had a 10 per cent cost advantage here and they were looking at whether they could get the clustering that they need in order to do that, then they would go where it was 10 per

cent more to get the kind of clustering they wanted. If you get the clustering in combination with the 10-per cent advantage, you have a real competitive advantage.

Mr. Ferraro: Certain sectors in Ontario would be at a definite advantage.

Dr. Baranson: It could be if you could get the clustering.

Mr. Ferraro: Yes.

Mr. McLean: I have some real problems here. From what I read in your summary and from what I hear you saying, it would not appear to be quite the same thing. You indicate that Canadian plants are, on average, 30 per cent less effective than the United States plants. A minute ago you were saying that General Motors wanted to expand here because of the labour market, the labour force and the good labour we have. Yet you are saying we are 30 per cent less efficient than in the United States. Are we 30 per cent less efficient?

Mr. Baranson: There are two possibilities. I could be very wrong or maybe there is some explanation.

It is interesting that I got this figure from a free trader. Daly at York University developed these figures, which he used to argue for the necessity of free trade, that you have to put the pressure on to improve the efficiency of industry. It is 30 per cent inefficient, and the cold wind of competition will do that.

There are two things here that explain it. Again, permit me to rely on reasoning rather than political fact beyond the figure I quoted. One is this is an average figure. In the automotive industry, it could be the other way. The important thing is that in this case the plant is a world-class plant in terms of scale, if nothing else.

The main reason why there is inefficiency is the scale of most Canadian plants; that is the big inefficiency factor. On average, there is that inefficiency factor, which is a product of the plants that have growen up under protection that are scaled to Canadian markets and therefore have that inefficiency built in. On average, that is the problem. You build something that is cost-competitive selectively in certain areas, particularly in these areas of the auto pact. That is what you do.

Mr. McLean: I often wonder why there are so many factories in Ontario that are subsidiaries of US factories.

Dr. Baranson: My guess is that a very large percentage--as much as 80 per cent--have something to do with the necessity of serving the market, either the level of protection, the auto pact or an offset of some kind.

Mr. McLean: Okay. If the US is more efficient than Canada, why then are factories from Holland, Germany and Japan coming to Ontario, if they could go to the states with 30 per cent more efficiency?

Dr. Baranson: They come here for the same reason US plants do, what I just said.

Mr. McLean: You indicate that Canadian industries show little

interest in directly serving the US market. We did have approximately six trade offices in the United States; the new government cut it back to four. Do you think that could be an advantage? Would that not show an interest directly more than the six per cent you are talking about?

Dr. Baranson: Forgive me. I may have used language that is misleading, if not quite correct. The six per cent has to do with the average level of protection into the US market. I am saying that liberalization has already occurred to that point. The free traders argue that if we had more liberalization, that would give further incentive to Canadian industry to move into the US market. All I said was there is little incentive in that. It is liberalized enough and you will need further liberalization to give them further incentives. Maybe that is poorly worded.

Mr. McLean: It is interesting because Mitshubishi came from Japan to Ontario, and here they are exporting most of their market back to the states.

Dr. Baranson: What is it?

Mr. McLean: Mitsubishi. They would be creating 500 jobs anyway.

Dr. Baranson: Is it cars?

Mr. McLean: Picture tubes.

Mr. McFadden: Mitsubishi took over a plant and is exporting almost all of its products or a good part of them.

Dr. Baranson: I do not know the particular case. It was (inaudible) took over Motorola's Quasar plant and did very well with it. The Japanese are very good managers wherever they go. They simply know what they are doing. There is a certain lag in terms of industrial management, which the Japanese seem to be able to do anywhere they go. They are domestic managers. The United States has had a lot of that.

Mr. D. W. Smith: I would like a supplementary to what Mr. McLean just said. When you talked about these plants in Canada being 30 per cent less efficient and you talked about scale, do you mean they are not world scale?

Dr. Baranson: The volume of production is 10 per cent comparable with the United States plant.

Mr. D. W. Smith: The volume is not big enough. It has nothing to do with our wage packages being too high relative to the US. It is not anything like that?

Dr. Baranson: It could. I did not look into that. I know the Daly study gives you all the detail as to why they are 30 per cent less efficient. Over time, as the exchange rate changes, that will change. He looked at it for an extended period and in real terms. He said, on balance, they are 30 per cent less efficient. He did not emphasize it anyway, but having worked all over the world, I know scale is the big factor.

If you are producing white wear, you are buying components and parts. The further down you get, the volume factor kills you, particularly with old plant equipment. With the new automation, in some cases you are able to bring

down the premium for lower volume. It is not as high if you get the right kind of automation cluster. It is one of the paradoxes.

Mr. D. W. Smith: If you extend this the other way then, are we going to end up eventually--and do not ask me how far down the road--with some huge plants because of this volume factor? Are we going to end up with just a few producing everything?

Dr. Baranson: For instance, take a typical Cummins Engine plant. Cummins Engine Co. Inc. produce diesels in Indiana. They have what you call the make-buy; 40 per cent is produced in plant and 60 per cent is bought out.

For a single engine, you need about 200 plants to supply that 60 per cent buyout. The assembly plant and some of your central production facilities may be a little larger, the nucleus, but for the clusters that you have in many of these smaller plants for any industrial product, you still need hundreds to supply a plant.

Mr. D. W. Smith: Are you interested or prepared to comment on agriculture? I am in agriculture and I wonder where it may be going if free trade takes place. In Canada, we have a different climate to what you have in the United States; yet I believe a country should have a basic food production system within its own country. Would you would make any comments on that?

Dr. Baranson: I was prompted to make a comment before when this gentlemen here said something about sheep. On one of my first jobs with the World Bank, I was sent to New Zealand. New Zealand was an underdeveloped country, which had about four million people and 50 million sheep on its two little islands. I was sent there to look at New Zealand's steel industry, which the government decided was overprotected and so on.

12:15 p.m.

Word leaked out through the fourth estate that I was a little critical of the protectionism of the steel industry. After I was there for a couple of weeks, we were invited to a reception at the Central Bank. One gentleman came over, who was at least four inches taller than I, and said, "Mr. Baranson, how much do you know about agriculture?" I said, "I am afraid not very much." He said, "How about all this stuff you have been saying about this and that?" I said that was the area I was going over for and was supposed to know something about. He shook his head and finally said, "Mr. Baranson, I can see you are just going to have to stay a little longer and I am going to have to take you out into the"--and he used some very colloquial terms--"muck and mire and show you what this country is all about." That is about as much as I know about agriculture, really.

Mr. D. W. Smith: So you are not prepared to make too many comments.

Dr. Baranson: I will tell you one other thing, which relates to something I do know. I had a very interesting experience three or four years ago. I spent about a week in the Sacramento Valley. Out there is some of the most intensified, high-technology agriculture in the world. I was amazed to learn that something like 20 per cent of the value of output of American agriculture comes from the Sacramento Valley. It produces hundreds of varieties of agriculture products, everything from figs to you name it.

Mr. McLean: Wine too.

Dr. Baranson: Wine too.

They have irrigation problems there, so the ploughing they have to do in the field has to be just right. They have lasers. Their tractors are fitted with lasers to do the ploughing to get the exact slope they want in order to get the irrigation water running right.

I think one of the answers in agriculture is something I said before. It has to do with technology and marketing. I was brought out, as a matter of fact, because there are about 100 or more small companies that have grown up that provide the new packages for fertilizer, crop control and to do new varieties. There are specialized companies. Some of them come from Israel because they have done this desert-type farming where one conserves water to a great extent.

Agriculture, like any other segment of production now, has to respond to the new globalization of production and marketing, to the technology component of maintaining dynamics and to the necessity for keeping up with these new kinds of markets and trends. I am sure agriculture must have a segment of this. There are segments where that intensification of these capabilities and this ability to respond to changes in world markets is essential.

Mr. D. W. Smith: Because of Canada's climate, can you see us maybe being pushed out of agricultural production? Can you see that ever happening? If you have not looked into it in detail, maybe you never really thought about it.

Dr. Baranson: I once talked to General Motors people who were down in Argentina and tearing their hair because they had ever decided to come down and produce automobiles there. I asked them, "Why in the world did you ever come to Argentina to produce these things?" They said to me, "If General Motors had to produce tomatoes in Greenland, they would do it." I think about agriculture in a cold climate.

I was in Jamaica a couple of years ago and one of the things I ran into was roses that were being grown here in Toronto. This company decided, because roses were going to $60 a dozen, that producing them in hothouses, the way General Motors would have done in Greenland, was a bad way. This company was now branching out to be able to market and produce more effectively out of the Caribbean and to use its distribution and knowhow from the Toronto base. Part of this is the internationalizing of the marketing and production function. To the extent that you cannot produce the roses in hothouses in Toronto, there may be other places you can do it, in order to maintain your marketing, distribution and technology, and to use that.

It is a different age. It is hard for everybody. The pace of change is intensifying. What used to take 10 years now is taking two years. The product cycles are telescoping. How much more do you have to learn to keep up after you are 35? You have to learn that much more. There is an intensification of the dynamics of change, the quantum and the qualitative. Everybody has to learn to be a little more resilient, to do a little more in order to be able to keep up.

Mr. Chairman: Perhaps the climate would be a nontariff barrier. It should be on the bargaining table and the United States would take its full share of the snowfall.

Mr. McFadden: I just want to switch the focus from sheep, manure and

roses to something else, which I think you will find more perfume in.

Dr. Baranson: Thank you. I felt I was getting a little out of my element.

Mr. McFadden: All aspects that I just mentioned? What I want to orient it slightly to is heading into the high-tech area. Two industries where there are essentially no tariffs between either country and no nontariff barriers are the automotive and aerospace, between Canada and the United States; the automotive industry through our auto pact. I know there is some argument about whether that is free trade, managed trade or whatever you want to call it. It is a trade agreement anyway, and we have managed to allow the product to go back and forth under a framework. The aircraft industry also permits the movement of material to swing back and forth without duty, some of it in relation to defence sharing but by no means all of it. In fact, Canada does not even get its fair share of defence sharing in supplying, even up to the level we could.

If you take a look at the aircraft industry, for instance, you have the large companies, Canadair Ltd. and de Havilland Aircraft of Canada Ltd. Then you have companies such as Fleet Aerospace Corp. and Spar Aerospace Ltd., who export a good part of their product to the United States very competitively and are surviving well and are, I think, the model you set out.

The question I would ask is, if you look at the auto industry and the aircraft industry, in both areas you have essentially free trade. It is within a framework, it is not unrestricted, but there are understandings between the two countries. If you look at other high-tech areas where there are tariffs in application and so on, you have significant deficits. I do not want to take that too far because I know there are reasons in both industries why things have happened they way they have. However, I think it is somewhat instructive in the sense that those are two industries in which we have trade understandings and where there are no duties, and both industries developed manufacturing operations that are basically world-class or something close to it.

Dr. Baranson: You have a very deep semantic problem here. In my mind, the most structured nonfree trade is exactly the kind of trade you are talking about. It is what we call offset trading. That is much more effective to force production in a country than any tariff, any protection of them or anything else. The most structured kind of trade in the nonfree trade sense is exactly what occurs in the aircraft and automotive industries. If you dismantle that, you will have them withering away.

As a matter of fact, this is how the automotive industries got started in these developing countries. It was essentially an offset arrangement in which as they moved from import substitution to export expansion. The Mexicans said, "If you want to continue to sell cars into this country, you have to export an amount equal to what you buy." As a matter of fact, some of them got the idea from the Canadian agreement. That is a form of nontariff barrier.

I have not talked to the negotiators, but my guess would be that at the heart of what they want to dismantle is the automotive and the offset.

I have worked for General Dynamics Manufacturing, and this offset is a thorn in its side. It has it with Europe; it has it all over the world, anywhere it goes now, to Turkey or anywhere else. It was terribly angry with

the Canadians because of these offset things it is forced to produce in the country. It cannot sell unless it produces.

I think there is a semantic thing. As a matter of fact, this is the most structured kind of trade you can get. It is not bad necessarily. Do not get me wrong, it is not bad.

Mr. McFadden: Our committee in its interim report came out in favour of trade talks. No one said he or she was in favour of a comprehensive free trade agreement. In my view and I would imagine that of some other members of this committee--I am not saying we would get a comprehensive offset agreement--there is no reason we might not get something a little different from just a comprehensive free trade agreement, something that might allow for offset, something that might be more oriented toward dispute resolution rather than some form of comprehensive free trade agreement. It is clearly to the benefit of both countries to regularize the trade arrangements in some way that would be mutually beneficial. In other words, there is going to have to be give and take.

It seems to me though that to some extent what has happened is that we have got off to a point where we believe the only thing that should be discussed is a comprehensive agreement. Perhaps the federal government has got too heavily into that and has led too strongly on that foot. It seems to me that what we want are trade discussions that could be comprehensive. What will come out of them may not be a comprehensive free trade agreement at all.

3:20 p.m.

Dr. Baranson: Is offset not included in these discussions?

Mr. McFadden: They will throw everything on the table. I guess my point is I do not know whether you are going to get free trade or whether you are going to wind up with something a lot different than that. Who knows?

Dr. Baranson: The major point in my paper is that is one of the strong handles that you have had in the past and you will be very careful about dismantling it. If you do, it will whittle away what investment you have and what access these people have to your market. The only reason these companies sell is the agreement. It is like the North Atlantic Treaty Organization co-production agreements. For every aircraft that is sold they have to generate 58 per cent of purchases in that country one way or another, either in the aircraft that is sold to them or some other aircraft throughout the world.

Mr. Chairman: Doctor, I wonder if you could sit towards the microphone so Hansard can record you.

Dr. Baranson: Where is the microphone?

Mr. Chairman: It is right in front of you. Are there any other questions?

Mr. Ferraro: You can sit back now.

Mr. Lane: Since we have a little time left, I am curious about recommendation 6 where you say the government of Ontario should fund a comprehensive survey of human and institutional resources that could be channelled into the newly emerging segments of the economy and so on. What

terms of reference would a government use at this point to have a survey of that kind, not knowing what the talks were going to produce? How would you second-guess the talks at this time to have those types of things in place, if and when?

Dr. Baranson: I had in mind, as a matter of public policy, if you move in the direction of reinforcing the elasticity of responsive Canadian industry either to increase competition or to access the new market opportunities, the human resource element is essential in the computer-integrated manufacturing area and this whole area of new automation. It is a matter of taking stock of the human resource element. For instance, I know when you study the comparative dynamics of Japanese industrial management versus the United States, the human resource element, how they mobilize people to do the quality control and the inventory management and so on, that human resource element is fundamental.

It is the training, the education that is fundamental in terms of being competitive in this dimension. I meant it that way, rather than in relation to any kind of negotiation. The argument is that even without these liberalization talks, the future of Canada depends on this kind of growth in this direction. The human resource base again is essential to that.

Mr. Lane: I agree it is necessary as things are but I cannot see how we would know what kind of animal we need to accommodate the results of the free trade talks at the same time, that is all.

Dr. Baranson: To make it more tangible, a few weeks ago I visited Ryerson Polytechnical Institute. The vice-president for technology was seconded to head up the centre for new automation technology. They have had a program for a year or a year and a half that tries to reach out to firms in this area for the retraining and add-on education you need in order to begin to man some of the new automation. That is a perfect example of the nucleus of something you need to do now if you are serious about this.

Mr. Lane: We need it anyway, whether it results in free trade or not. Thank you.

Mr. Chairman: Thank you very much, doctor. We appreciated your coming here and expanding on your report. It has been helpful to us. To my knowledge we are the only public body in the country that is constantly wrestling with this issue. You asked me before we commenced if it is still a learning experience and obviously, it is. Thank you very much for coming here and assisting us.

Members of the committee will note that tomorrow morning we meet at 10:30 a.m.. Professor Harris is being delivered to Toronto by Via Rail from Kingston so it may be that we will not start until 12:30 p.m.. Who knows? Because the train does not arrive until about 10 a.m., we will not start until 10:30.

The committee recessed at 3:25 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, APRIL 10, 1986

Morning Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Hennessy, M. (Fort William PC)
Knight, D. S. (Halton-Burlington L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitutions:
Callahan, R. V. (Brampton L) for Mr. D. W. Smith
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes
Mancini, R. (Essex South L) for Mr. Knight
McLean, A. K. (Simcoe East PC) for Mr. Hennessy

Clerk: Arnott, D.

Staff:
Cotton, B., Research Officer, Legislative Research Service

Witness:

Individual Presentation:
Harris, Dr. R. G., Professor of Economics, Queen's University

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, April 10, 1986

The committee met at 10:34 a.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: The committee will come to order. This morning we have with us Professor Richard Harris of Queen's University. We welcome you, sir. We have been quite aware of a lot of your views for some time, or if not of your views, at least of the findings from your initial report. That is the reason we sought you out to do some further work, particularly as it concerns Ontario. We have had your report now for several weeks and we appreciate your coming here to discuss it with us. Would you like to open with some comments, and then we will move into questions?

DR. RICHARD G. HARRIS

Dr. Harris: That would probably be appropriate. There are many facets to the debate. I was asked to look at the employment issue. I would like to say that one cannot make predictions of what actually will happen. Whenever such an agreement may or might come about, the circumstances under which it does so--the macroeconomic state of the economy, technological change and the like--are entirely uncertain events, and I think we have to keep that in mind.

An exercise such as was carried out here tries to ask, the way economists attempt to quantify in our highly perfect ways, the "What if?" question. That is, assuming that nothing else in the world as we know it today--or, in fact, as it was yesterday--were to change, what would have been the impact of, in this case, freer trade between the two countries under a set of assumptions?

The set of assumptions one picks will condition the results one gets in an exercise such as this in very important ways. If one tries to pick assumptions that bias the results in certain ways--for example, in this case we are interested in the specific question of the shorter-run to medium-term employment consequences. The exercise is conducted in a way in which the assumptions chosen are relatively pessimistic; that is, they would tend to generate fairly large increases in unemployment if circumstances were such that that could happen.

I would not defend in any sense the numbers you find in these tables as a prediction of what is going to happen to the Ontario economy if we get free trade, whenever that might be--in 1990, in 1986 or in 1988--because the outcome of that would be highly contingent upon three things. The actual form of the agreement is obviously one, particularly the nature of dealing with contingent protection in the United States and in our own tariff structure. The macroeconomic state of the world economy would be largely influential on the course of adjustments during that period. The third factor is the nature of the internal response within Canada on the part of management, labour and government to the extent that we do or do not attempt to liberalize some of the barriers that exist among the provinces and that are extremely difficult to get at in any adequate way.

Maybe I should just stop at this point.

Mr. Chairman: Okay. Thank you.

Your report suggests there there there will be very few job losses. You foresee very few losses of jobs in most sectors, but possibly some in natural resources.

Dr. Harris: Right. The overall thrust of the conclusions is that the set of existing 1982-83 technology, together with the competitiveness of whomever we are trading with at that time, suggests that a reduction in the barriers between the two countries would yield relatively small unemployment effects. That is, it would not tend to generate much in the way of unemployment, but neither would it tend to generate much in the way of employment. In fact, the numbers that are reported suggest that the base case here is relatively small. Decreases in unemployment at the industry level are referred to in table 7.8, for example.

The important characteristic of that table, other than the changes in the unemployment rate by industry arising from the initiation of a free trade area in 1984, is that the numbers are all very small and, on average, negative.

The conclusion I would come to, if you can find it, is that it may create jobs. There are circumstances that are not modelled in this analysis. For example, the ability to exploit new technology, a faster pace of technical advance and in some senses a better climate for investment would be fostered by such an agreement. That may or may not be the case.

The point is that within this type of quantitative analysis you cannot make the case for a free trade arrangement on the basis that it is going to generate more jobs. The conclusion is that it will generate better jobs; the sorts of jobs that will be generated will be more highly paid, but it will not generate more jobs. In fact, those fluctuations that we observe in the provincial unemployment rate due to swings in macroeconomic activity are far more significant than any changes that are going to be generated by a mutual reduction in trade barriers.

Mr. Chairman: Of the three scenarios you have used--that is, if it takes a phase-in period of five years or 10 years or a different scenario for Canada than in the United States--the best scenario is if our phase-in period is slower than that in the United States in so far as employment is concerned. Is that correct?

Dr. Harris: Yes, as far as employment is concerned, results indicate clearly that, if we were allowed a longer phase-in period than the United States, there would be some gains in employment. However, as you know, as fluctuations in employment go in the economy, again these are not large numbers; 13,000 jobs is very small in terms of aggregate fluctuations in employment in the country, in Ontario.

Mr. McLean: You indicate that 80 per cent of exports to the United States are duty free, and yet 50 per cent of the imports to Ontario from the United States are duty free. How is that going to balance under a free trade agreement?

Dr. Harris: They balance in many ways. First, those figures that are oft quoted, and sometimes I quote them myself, tend to be misleading because in many industries there are prohibitive tariffs. There exist tariffs under

which we neither import nor export the product lines, so when those numbers are calculated, they do not include what we regard as the important number, which is the nominal tariff structure--that is, the tariff that actually exists on each product line. Therrefore, it is erroneous to use an observation such as the one that 80 per cent of our exports are duty free when the fact is that we are not exporting a bunch of things that we cannot get on the market at all.

On balance it is true that, if you look at the tariff structure, we have higher tariffs. That is reflected in our productivity, though. In Canada, as I am sure you are well aware, the most significant problem we have in our manufacturing sector--even vis-à-vis the United States, never mind vis-à-vis Japan--is that we are still running a 30 per cent productivity gap. That is highly uneven across industries. You can look at some industries in which we are essentially at world-class levels. New plants in automobiles are at very good productivity levels. We have some industries in which productivity is absolutely abysmal in relation to world standards, and those industries are some of our most heavily protected ones. This highly uneven productivity structure would suggest that there is going to be some significant import penetration, in the first instance, into the Canadian market.

However, what is interesting about the structure of Ontario trade is that, in almost every product line you can find--for example, at this level, which is a two-digit classification code--you can find firms within each of these industries that export some products. You can also find industries that suffer from imports.

Most of Ontario trade is what we refer to in the business as two-way trade; that is, you aggregate product lines and, by a fine line, you find we are shipping things back and forth across the border within any given commodity classification. Therefore, the nature of the adjustment would be of two forms. On this side are firms that would get better access to the US market. They are already exporting but will continue to do well and, in fact, will do better, given that they should have lower-cost inputs in the first instance. Those firms that have a clear cost disadvantage at the existing structure of wages and in their plant design are going to be forced to rationalize.

The numbers here suggest that a 10-year phase-in would provide a relatively adequate period for rationalization. It is true that our net exports fall during the period, so there will probably be some pressure on the exchange rate. However, the gains start to show up after 10 years in terms of increased productivity and real wages in the industry.

Is that the answer you are looking for, Mr. Callahan?

Mr. Callahan: You said at the outset that all of this report is based on the fact that a lot of things remain as they are. I presume that one of those is the Canadian dollar remaining at 72 cents or 71 cents--what is it at now?

Dr. Harris: In actual fact it was worth 80 cents when this was done.

Mr. Callahan: I guess that enhances your view that there will be even more employment. Is that the assumption from some of the--

Dr. Harris: It is very misleading to use the current situation as representative of the future course of events in Ontario. In my view, with the

Canadian dollar we are suffering what is known in the business as Reverse Dutch disease. We have a large resource sector that has driven down the value of the Canadian dollar. As a manufacturing province, Ontario is experiencing significant surpluses in a number of product lines. My best calculations are that if cost competitiveness were to be restored on average in manufacturing, we would end up with a dollar somewhere around 75 cents to 80 cents. I do not know whether the dollar will ever get back there.

Mr. Callahan: When was the dollar worth 80 cents? How long ago was it?

Dr. Harris: It was in 1980.

Mr. Callahan: When I was in university it was $1.14 the other way. This was prepared in February 1986. I note you have it written on the front. Surely to heaven--

Dr. Harris: The problem is that we used trade data from the early 1980s period. You asked me what would happen. My view is that the Canadian dollar is likely to appreciate independently of what we do in the short run. The analysis suggests that our current account will go in a relatively small deficit position during the 10-year period. This would suggest that the Canadian dollar would be under some pressure to depreciate.

As you correctly observed, the depreciation would of course mitigate any negative unemployment effects and would help any favourable employment after-effects. At the same time, a lower dollar means lower real incomes for Canadians in the short haul.

Mr. Callahan: All right. Everybody else had an opportunity to read this in advance. I have just skimmed through it.

Mr. Barlow: I am just trying to go through it now.

Mr. Callahan: Is that right?

Does this study take into account the almost consistent event that takes place every two years when there is an election in the US? When they talk about protectionism, it is protectionism par excellence plus politics when they bring the employees back from the Canadian branch plant to bolster the employment rate in that state so that that senator or that--

Is this reflect the realities of the perhaps pragmatic but somewhat cynical political approach they take to the way they treat their Canadian neighbours by dragging these people back? Does it take those factors into account?

Dr. Harris: In some sense it does not. It takes in the sense that we use historical trade and employment data, which capture those effects on average. The answer is yes, but a model such as this with these quantitive amounts is incapable of putting in that political detail.

10:50 a.m.

Mr. Callahan: You would need a report such as this to be plugged into a computer and updated on a minute-by-minute basis.

The third thing is that, recognizing through the General Agreement on Tariffs and Trade negotiations, where the barriers are now between six and eight per cent on items on which there are tariff arrangements, the trend seems to have been a gradual reduction over a number of years. Do you see that as a safer approach? I am presuming you are suggesting there would be an elimination of the barrier over a five-year or ten-year period. Are you suggesting the reduction in those tariff rates would happen slowly on all commodities during that period, or are you suggesting the tariffs would immediately be eliminated?

Dr. Harris: No, there are three scenarios. One is that they would be eliminated mutually over 10 years; in another, over five years; and in another, we discussed a reduction over a 10-year period in Canada and over a five-year period in the United States. Those are the scenarios we are contemplating.

I do not think anyone is suggesting we should have overnight elimination of the barriers.

Mr. Callahan: Is this approach similar to or different from the traditional GATT negotiations?

Dr. Harris: It is very similar.

Mr. Callahan: Is it being addressed in response to the potentially nasty approach of the United States to become very protectionist and increase to the 25 per cent level you indicated?

Dr. Harris: Let me answer that question last, turning first to your first question. Under the GATT agreement in the Kennedy and Tokyo rounds, the countries involved agreed to what were called "tariff cut formulas." These were phased-in formulas, which we are still doing. The next cut is some time next year.

There are a lot of precedents in the GATT and other free trade areas for this type of institutional procedure to eliminate barriers. The much more substantive issue has to do with coming to grips with nontariff barriers to trade, such as procurement practices, subsidies and, of particular importance to Canada, the so-called fair trade laws in the United States.

Those factors are not adequately captured in analyses such as these. It is very difficult to quantify the impact on Canada of US fair trade laws, and in particular, of their contingent protection clauses. I know of no such quantification. There has been a lot of suggestion that the effects have been extremely detrimental to investment in Canada. For example, Northern Telecom now has better than 50 per cent of its employment in the United States, a large part of it the result of worries about protectionism in that sector.

As to the negative consequences of US protectionism, it is possible to answer how bad that would be for Canada. In this paper there are some calculations that look at the impact of a Danforth-type bill, which calls for a 25 per cent across-the-board tariff equivalent against US exports. Not surprisingly, the consequences are extremely damaging for a province that exports 80 per cent of its stuff to the United States.

My guess is that nominal wages in Ontario would fall by something in excess of eight per cent to 10 per cent, real wages would fall by close to 15 per cent and unemployment rates would drop by two per cent to three per cent as a result of such a bill.

Essentially, you are talking about a deep recession or close to a depression state of the economy for a five-year period.

Mr. Callahan: I recognize the purpose of this paper was to give the committee some idea of the impact on employment of this type of operation, but could I ask you a general question? I would presume any type of agreement such as this would have to have built into it a guarantee that no state or federal government in the United States, nor any province or the federal government in Canada, would enact legislation that would have a disproportionate effect on the balancing of those factors.

In other words, let us say we have had some complaints about the first-contract legislation and whatever way we approached it could have an effect on investment in Canada. I am thinking in terms of the restrictions we have already on our legislative ability through the Charter of Rights and Freedoms. Are we not creating a third layer of concern that we would constantly have our partners looking over our shoulder to determine whether the legislation had a negative impact on the agreement?

Dr. Harris: Absolutely. I believe Professor Simeon talked to you about this yesterday. There are profound difficulties, given the existing distribution of powers between the provinces and the federal government, not so much, as I understand it, between the states.

Mr. Callahan: That was a very intriguing commentary because it is probably the strongest argument for why the provinces not only should be invited to participate but also should have an absolute right, if it is going to work.

I have one final question. Recently, we have seen some problems with wheat in the United States and in Canada. How would you see this being dealt with under this type of an agreement?

Dr. Harris: I am extremely pessimistic about the resolution of problems in agriculture. In fact, this analysis does not look at it. It is only on industrial products and services. Given the extent of the $65-billion farm bill in the US, the politics of getting around the agricultural problem will be insurmountable, except maybe in some very specific areas, such as hogs or something such as that. GATT has been completely unsuccessful in dealing with agriculture.

Mr. Callahan: I gather that is a very special area that will probably have to be outside of this entire process, recognizing the approach the US takes and the approach we take with marketing boards and so on.

Dr. Harris: That is my best guess.

Mr. McFadden: Professor Harris, I found your study very interesting. It is the only study we have received that looks at service and industry together. We have looked at bits and pieces, but it is safe to say this is the first time we have made at least an attempt to look at the service sector at all.

First, I have a general question.

Mr. Chairman: Mr. McFadden, would you move towards the mike?

Mr. McFadden: Yes. I will move towards the mike. I do not want the record to lose these pearls of wisdom.

Your finding here is that if American protectionism were to be of the scale of Senator Danforth's bill, it would have a tremendously negative effect on Ontario's income and employment, and I would assume future growth. It would have a major effect on investment plans in Ontario, not only by Canadian investors but also foreign investors who might think of coming here if they found that they had to get over the American tariffs in order to get into the United States. It would have not only a five-year effect, but also a long-term and perhaps a terminal effect on a lot of industry, if investment decisions were affected by that.

I take it that one of the conclusions you are reaching is that there is some significant positive effect to a free trade agreement. There is some employment gain; not a large amount, but there is some. Second, we manage to avoid employment losses in the event that we are caught up in a protectionist net, so we have what you are suggesting a free trade agreement does, as I understand it--I am not trying to put words into your mouth. I am just trying to get the nub of your argument. We have a gain of employment if we can get some agreement, but we also tend to guarantee against a downside risk of some large significance that we could be running.

Dr. Harris: We tend to suggest that is a good, free trade agreement. On the other hand, one must be cautious since a severe recession or going through a depression would cause the US to aggregate. As a small industrial economy, we are largely at risk under such circumstances.

11 a.m.

Mr. McFadden: I found your discussion of exchange rates interesting. When Professor Dungan was here yesterday, he was suggesting that potentially we would have a major increase in the balance of payments which would cause a decline in the Canadian dollar. The reduction in tariffs would be an economic boost but there would be a decline in the value of the dollar at the same time. He was not projecting a 75-cent or 80-cent dollar; from what we could understand, he was looking at a dollar probably under 70 cents.

Admittedly, his analysis was quite complex, and I suppose for the committee a little hard to understand in some ways, because I do not think the submission was too direct in a lot of ways for the concerns we had. As far as I could understand it, his conclusions were quite different from yours. He was pessimistic about exchange rates. Of course, his argument was the exchange rate does not matter anyway; that we should not be fated about exchange. He thought it would drop anyway, and that might then enhance along with our export possibilities. You are suggesting here exchange rates would not go down; they will go up in the next five to 10 years.

Dr. Harris: There are two parts to the argument. Actually, Professor Dungan and I are in complete agreement except about what is likely to happen to the Canadian dollar, even supposing nothing happens about a trade agreement and we do not get one. I am suggesting that, if we get a recovery in commodity prices, say late in 1986 or in 1987, the Canadian dollar will appreciate. I think we shall find that will happen, quite independent of what we do on free trade, because in some senses it is currently below what we would refer to as its long-run equilibrium value. If we do not have a recovery in commodity prices, it will probably stay where it is. As to the impact of the free trade agreement, I agree with Professor Dungan that, in the first instance, it would cause a small depreciation in the Canadian dollar.

Mr. McFadden: How do you look on that? Do you hold his view that it

is not of great significance one way or the other, it is just a medium of exchange and not of any significance?

Dr. Harris: Most people do not agree with economists but, yes, that is one of the important investment mechanisms it would take to correct balance of payments adjustments. If we do not let the exchange rate adjust, we live with the consequences down the road.

Mr. McFadden: I take it one of the concerns on this is that if the dollar were to drop, would the Bank of Canada, or the federal government, feel it had to increase interest rates? What would be your advice in that sort of scenario? If the dollar were to decline, would you suggest that the federal government permit an orderly decline without adjusting interest rates up?

Dr. Harris: Yes. I am in favour of orderly declines in exchange rates rather than putting the burden on interest rates. However, that is a position you will not find professionally to a great extent.

Mr. McFadden: Another point I would like to raise relates to your fourth conclusion on page 26. You make the point that the principal beneficiaries of a free trade area with the United States would be manufacturing industries, while the service and primary industries do not appear to benefit to the same extant. You thought the primary industries might have a small loss of employment, with the loss being taken up by a movement in the manufacturing sector, as I understand it. I find that interesting because, in our submissions to date, of the people who have come here from banking, insurance and so on, the service sector has been basically supportive of a free trade arrangement. Based on news reports, not necessarily on witnesses, the manufacturing industries have had the most concern.

What you are flagging here is that the manufacturing sector overall should be very supportive of this since it stands to be the net beneficiary. Could you elaborate a little on your conclusions in that area?

Dr. Harris: Let me talk first about services. I suggest circumstances in technology and institutional change are occurring so rapidly in services that analysis based on historical data is suspect in that area. The financial services industry has good reasons to be in favour of a free trade agreement because Canadian banks, as well as other financial institutions, perceive themselves to be winners. Free access to the US market is regarded as essential. The results in services here do not reflect the institutional and technological changes that have occurred in the past few years.

That conclusion on manufacturing was reached in a much older study that we did. It has come through in a number of other conclusions and is supported by large amounts of work that economists have done over 20 years. This business of regional distinction in Canada, with central Canada being a winner in the form of higher wages to labour and the periphery being a loser because of high-cost inputs in the western provinces, in particular, is a paradigm of the Canadian political economy. It is an impact of protection in both the US and Canada.

I have always argued its fault; that is, the main impact of both US and Canadian protection has been that we have had, and to some extent still have, an inefficient manufacturing sector relative to the US. There are two possible avenues of adjustment out of that inefficiency. Either the resources leave and we end up with no manufacturing industry or, in a competitive environment, the resources find useful employment within that sector itself.

The experience of the 1960s and 1970s overwhelmingly speaks for the fact that in those industries where we have had reduced protection and better access, there have been significant productivity gains. Therefore, the evidence suggests on balance a cautious conclusion that manufacturing productivity gains would be realized with increased trade enhancement.

To the extent that that is true, where are those productivity gains going to show up? Principally, they are going to show up in increased wages to workers within those industries. Wages include, in some sense, whatever public infrastructure we have put on our wage base--unemployment insurance, health care, etc. The reason it has to show up in terms of increased wages is that Canada is a small player in the world capital market. Therefore, we do not have a substantial impact on world real interest rates in the long term. Canadian wage levels are the principal device by which competitiveness and productivity gains adjust vis-à-vis our trading partners. Therefore, if tomorrow a third of our plants on average were to have average labour productivity levels equivalent to that in the US, that would translate in the long term to real wages which were 25 to 30 per cent higher.

The principal cost has been to the Canadian workers in the manufacturing industries. That is not to suggest that the western provinces and consumers at large will not benefit, because they will. They will have lower prices on imported goods. However, those gains to consumers and the western provinces are small compared to the potential productivity gains in the manufacturing industries which are located in central Canada.

That is a major conclusion we have reached, not of this piece of work in particular but of a number of pieces we have done on longer-term productivity consequences of free trade, both between the US and Canada and other countries.

Mr. McFadden: So you see the gain being not only in terms of the productivity and probably market share and profit for corporations but also real income gains for the workers.

11:10 a.m.

Dr. Harris: In the first instance, export companies are going to have their share values rise as their profits rise. In the long haul, however, there is no evidence to suggest that manufacturing industries can sustain indefinitely higher rates of return in their industries. Eventually they will get competed away. The labour force of Canada, however, is a resource specific to this country, barring large-scale changes in immigration policy. The long-term price we are willing to pay for a man-hour of skilled labour will be that principal adjustment mechanism, and it is those wages that will rise. It is also fair to say that the workers in severely import-impacted industries who lose their jobs are part of the adjustment mechanism too.

The reason these productivity gains are realized is by encouraging those industries in which we have a competitive advantage or at least those in which we do not have a comparative disadvantage. There are some sectors in which there is no doubt we have some clear losers on the table, not so much vis-à-vis United States, although that is changing in some areas. Interestingly, not many of them are in Ontario; most of them tend to be concentrated in Quebec in the textile, clothing, footwear and knitting industries. The low-tech, low-scale end of that business seems to be located largely in Quebec. The rationalization that has occurred in the high-tech, high-scale end of those industries has been in Ontario to a great extent. My

results suggest that those industries do not have much of an adjustment to undergo, at least vis-à-vis free trade with the United States.

Mr. Mackenzie: The last bit of debate rings with some truth, but I am not sure what it tells us about the overall trade issue. In my own town, for example, basic steel is going to be able to produce considerably more when the continuous casting operations are finished and they have made some of the changes in the process. They have already told us of additional cuts during the next five years, so there is going to be an even smaller work force for a greater ability to produce. In this case, I do not think that has anything to do with free trade and I do not know what it does to them in terms even of access to markets, but it seems to me increased wages are for fewer and fewer people in the scenario we have been discussing.

Dr. Harris: You are addressing the general trend in all manufacturing, the increased capital intensity of modern production processes, which is quite independent of free trade. That is quite true.

Mr. Mackenzie: I have a question that deals with some early observations Mr. Callahan made about the perceived phase-in period that would be required in the event of a comprehensive trade agreement. Five to 10 years are figures that have usually been given by witnesses before this committee. I am curious because that is also one of the safegaurds, if I can put it that way, in entering into such an agreement.

How do you react to Mr. Yeutter's statements on February 28 at the Calgary businessmen's conference? He made two points. The first was that we are misguided or are misleading ourselves if we think everything will not be on the table in the course of free trade talks. Second, he took a very strong shot at the perception in this country that we could take it for granted that we would have a five-year or 10-year phase-in period. He was fairly well quoted in the Globe and Mail. I do not know whether you read his comments. When you get the number one or number two personality in the free trade debate in the United States telling us, "Do not count on this phase-in period," what is your reaction? Are those just the negotiations or the procedures or what?

Dr. Harris: My reaction is that we are engaged in negotiating pre-staging on both sides of the border. I have no insight into what the reaction is likely to be, but given the historical precedents in trade negotiations, I see no reason why there would not be a phase-in period of the sort we have been talking about.

Mr. Mackenzie: We have to some extent, whether it works or not, the General Agreement on Tariffs and Trade. The point I am making is that in defending a position favouring it, this is one of the first safeguards that is trotted out and stressed by a number of people, even though I do not think it was underlined in any of the discussions in Washington. It certainly was not by Mr. Yeutter on February 28, 1986. If we are not able to guarantee these kinds of positions, what does that do to the scenario you presented in your report? Does it mean the adjustment period and the initial problems would be much more severe?

Dr. Harris: If the barriers were reduced tomorrow in that way, there is no doubt about it that the adjustment would be much more severe. I have no insights into the likely outcome, but I cannot see it coming to anything other than after a minimum of a five-year, phase-in period.

Mr. Mackenzie: I agree with you and I am inclined to think it is

pre-bargaining, but we have not been very good at that in this country. We give half our cards away before we even start.

Dr. Harris: I agree with that 100 per cent.

Mr. Lane: Dr. Harris, I would like to follow up on a matter Mr. McFadden touched on briefly. There are a large number of bills before the administration of the United States to provide protection against certain imports from this country. When I was down last summer, the general feeling was that some of these bills would likely get approval, although maybe only a tiny percentage of them. Even a very small percentage would cause losses of jobs in this country.

It appears to me, and I am wondering what your attitude is, there would be less pressure for these bills if there were ongoing discussion about freer trade, long-term agreements and so forth. At the very least, depending on the outcome of the discussions, we would probably be buying some time on the loss of those jobs as opposed to those bills going through. Do you not think the pressure would be off for a period of time if there were ongoing discusssions?

Dr. Harris: It would mitigate the pressures, but my own slightly pessimistic view is that the course of the business cycle over the next two to three years will be the biggest influence on the success or otherwise of this protectionist legislation. If there is a major recession in the United States, the passing of a number of those bills is almost inevitable, independent the current state of negotiations. It is a bit of a balancing act. We hope the recovery of the economy continues. It is the longest-lived recovery on record in the post-war period and we hope it keeps marching on so that those protectionist sentiments are diminished. I agree with you. If these negotiations are ongoing, at least in the short term they would mitigate the possibility of these bills going through.

The lumber issue, for example, continues to heat up and the two parties involved are trying to divorce the two issues, making lumber one issue and free trade with Canada another. I do not really see how they can do that. One of the principal issues from the Canadian interest point of view is the implementation of US contingent protection law. As to the definition of injury and the definition of subsidy, which we think is completely outrageous, I hope and strongly suspect that is going to a major point in the Canadian negotiating stance. Therefore, this case is going to be very important.

Mr. Lane: That was basically my reading of it, that if there are ongoing discussions about freer trade, long-term agreements and so forth, the pressure will be off these bills given the circumstances as they are at present, as opposed to getting some of them through, which is certainly going to be detrimental to our bargaining situation.

Mr. Ferraro: When we look at all these reports and submissions, there is obviously a high degree of hypothetical value in them because this is unique. Are you aware of any studies of a similar nature, for example, from when Britain was contemplating going into the European Community. If there were, how did they prove out in the end?

Dr. Harris: Yes, there have been many studies done for many

countries. The studies about the European Community are among the principal ones.

11:20 a.m.

Mr. Ferraro: I suspect you cannot use the United States-Israel one.

Dr. Harris: Not yet; you could not use it anyway. There are the studies done on the common market, but you must remember the common market was formed under periods of quite high growth worldwide. That qualifies the conclusions heavily.

Mr. Ferraro: Is an analogy appropriate?

Dr. Harris: Yes, it is appropriate in the industrial sector; in the agricultural and primary sectors you would want to hold off. The conclusion from the common market was that the adjustment was remarkably harmonious, with very few job losses. Most of the resources that were moved were moved on an inter-industry basis; that is, workers moved between plants in the same industry or plants essentially changed their product lines. That was the major avenue of adjustment. Productivity gains were realized relatively quickly in that case.

The big difficulty with making that analogy now is that growth is at a substantially lower level in the world. If we had six or seven per cent growth rates, we would have no problems at all in undertaking adjustment to free trade, but that is not the current situation. We have a double whammy in that not only do we have low growth rates, but also North American manufacturing as a whole is at a severe competitive disadvantage in a number of areas vis-à-vis low-wage countries. Those two circumstances colour the potential adjustment quite severely. I have not read the Macdonald commission report on the latter aspect. My view is that quite independent of what Canada and the US do, manufacturing is faced with a very severe adjustment problem in this country and in the US. There is no way we can get around it. That will have to be faced head on.

The question then becomes, what environments are conducive to making that adjustment in the longer term? My position is that given the importance of scale for most industries, as a minimum, we need access to the US market to bring most of our industries up to world class. The only serious alternative I see to that is a major Japanese industrial-type policy which, quite frankly, would be a disaster. Our country is simply not large enough to support the industry-building exercises Japan has been able to undertake. In any case, retaliation by the US would completely mitigate any benefits we might get.

Mr. Ferraro: You are also making the assumption that you will have the co-operation among labour, management and government that Japan has, which I do not think we will have.

Dr. Harris: No.

Mr. Callahan: Mr. Ferraro has asked about the scenario of the European Community, but the spinoff is that if we were to go the route of a five-year or 10-year arrangement, the Pacific Rim countries could take a hard line in terms of our trading with them--this is hypothetical but I think this whole thing is hypothetical--by raising or escalating their rates in response to some arrangement we had with the US. Do you see that? I wonder whether that happened with the European Community. Did countries outside see themselves

being excluded by one or more of the countries in that economic union and put a higher trading restriction with the other nations?

Dr. Harris: I can tell you what has happened historically. Many other countries were bound by the General Agreement on Tariffs and Trade. The EC was formed under a particular clause of GATT that allows for the formation of a free trade area. The industrial countries that signed that agreement did not raise their tariff structures in the first instance in response to the formation of the common market. Some countries, however, were nailed. New Zealand, in particular, was denied preferential access to the British market in agriculture and it responded to it by putting up huge barriers on everything. New Zealand went from being third to being 28th in the world in terms of per capita income in a 10-year period. It was very unfortunate that it was denied access to its major export market for agricultural products and it responded in this way. Whether they could have done something better remains to be seen.

As to speculation about what would happen on the part of the Pacific Rim countries were we to get a free trade area between Canada and the United States, I do not know. Right now our exports to the Pacific Rim are primarily in the resource end, on which tariffs have little impact.

Mr. Callahan: Are you saying that the United States, as a signatory of GATT, would be prevented from putting an exorbitant rate on Japanese car imports, for example?

Dr. Harris: Yes.

Mr. Callahan: That could not impact negatively on us being their bosom buddies and involved in this free trade relationship with the United States.

Dr. Harris: That is true, but unfortunately that is the good news. The bad news is that everybody has found ways to circumvent these treaties through a proliferation of a host of barriers such as quantitative restrictions, which is one of the major ones, voluntary agreements and orderly market arrangements. It might be the case the United States would insist that the VERs, voluntary export restraints on automobiles for example, be changed. Everybody has found ways to circumvent GATT and that is the major problem with GATT.

Mr. Callahan: My concern is that we are perhaps putting all our eggs in one basket and that our North American common market consists at the moment, or would consist under this proposal, of only us and the United States. I would hate like heck to cut off our opportunities for positive reaction with other countries outside that group as a result of joining that economic unit.

Dr. Harris: I agree 100 percent.

Mr. Cordiano: With regard to analogy that was made about Britain entering the European Community, you have stated the adjustment was done relatively easily. The whole question of foreign ownership factors into that. To what extent was Britain's economy foreign-owned? It certainly does not compare to the degree of foreign ownership in this country vis-à-vis the partner with which we would be entering into a free trade agreement. Do you have any comments on that element?

Dr. Harris: The major multinationals that were the big players in that era were mostly US-based. It is true that in some countries the share of foreign ownership was significantly reduced. The key question is not the question of ownership any more. In today's global environment, corporate decisions are made globally whether a company is owned 50 per cent by Japanese, American or Canadian interests. The question is how management perceives its interests being served in this location when it has activity around the globe. Many Canadian companies are going offshore, just as with the United States.

This question of the location of economic activity in the broader context is an aspect of the performance of the manufacturing sector in both Canada and the United States. One of the interesting things about the Canadian scene currently is that given that our wages are significantly below those in the United States, there are some advantages to a location in Canada if you can secure access to your major market. Whether those advantages will persist remains to be seen.

11:30 a.m.

With respect to the spectre of US subsidiaries picking up and leaving in response to a reduction in our tariff rates--no one has asked me about that but this kind of question leads into that issue--I am pretty sanguine about that, if you look at the experience of the 1970s and the early 1980s in response to the cuts made in the Tokyo and the Kennedy rounds. The multinationals have a substantial presence in this country, a lot of sunk investment and a skilled work force, and they responded by rationalizing their production as opposed to moving it offshore.

If they move offshore, I do not think it will be to the United States. It will be to Brazil, Korea or Thailand. I really do not think there will be a major issue of plants moving between Canada and the United States if there is a secure agreement.

Mr. Cordiano: There is another factor, this whole question of having a competitive advantage with regard to economies of scale, that whole exercise. You will have a competitive advantage to go on an international scale if you have access to a large market. What seems to be a possibility in the next decade is that with computer-aided manufacturing systems, economies of scale may be a thing of the past. It is a fact that we have developed systems, and they are being developed in the United States on an experimental basis right now, where economies of scale do not mean very much.

Dr. Harris: I would like to make a comment about that. There is this observation that flexible manufacturing systems reduce scale. On the other hand, the latest plant for producing videocassette recorders that was built in Japan was built on an efficient scale so the company will capture one third of the world market. Thus, the evidence of the existence or absence of economies of scale is highly variable across technologies.

Mr. Cordiano: That does not prove economies of scale will be successful in the future. The company could be quite vulnerable because it has established that plant and might not get one third of the market.

Dr. Harris: Exactly. There is no easy answer. If this scenario where there are no economies of scale comes about, if they disappear in manufacturing, I suggest the outcome will be that we can just stop trading in manufactured goods. We can produce them all at home. There is evidence in some

industries that we are going to get strong-scale, down-biased technological change, but it is not a uniform phenomenon by any means.

Mr. Cordiano: Certainly, in key strategic manufacturing industries it would be effective, and that is something that is not factored into this discussion. As of yet I have not seen a possible scenario in which flexible manufacturing is even considered with the possible outcome of how a free trade agreement factors in.

Dr. Harris: Decisions will not be scale-based. They will be location-based and cost-based.

Mr. Cordiano: A great number of reasons are being advanced for a free trade agreement. One of them is that we are going to have access to this large market and, therefore, will be able to be competitive on a worldwide scale because we are gearing up for a larger market. That is a major question mark.

Dr. Harris: I agree, if these technological changes proceed in the fashion you envisage them. When I worked on the Macdonald commission, for example, we surveyed many chief executive officers. The importance of scale and market access in their decisions were factors that came up again and again.

Mr. Cordiano: They are working on three-year to five-year plans.

Dr. Harris: Exactly. If you really believe we are going to have flexible manufacturing systems in which there are no economies of scale, then I put to you the proposition that we can stop trading in manufactured goods.

Mr. Cordiano: I do not know that we can stop trading, but it would have a major impact on any kind of free trade agreement because of the advantages to be derived from it.

Dr. Harris: Location decisions will be based on other considerations. Local factor costs, market networks and distribution factors will be far more important.

Mr. Barlow: Dr. Harris, I am new on the committee and have been trying to read everything that was handed to me. This is the first opportunity I have had to go through your brief. I have been going through it rather quickly.

As we read further, we find there will be winners and losers. Even the economists agree on that, and it is very difficult to get economists to agree on anything. You say the manufacturing sector will be a winner with gains in employment, productivity and so forth. I think there might be winners and losers within sectors as well. Could you give me a brief summary of who you think the real winners and loser will be?

Dr. Harris: My view is that the losers will be particular firms across a wide range of industries. For example, auto assembly in this country is currently operating at significantly lower productivity and cost performance relative to its best competitors in the US. It depends on the ability to rationalize and respond in the face of this environment. Auto assembly would, in the first instance, be a loser.

The furniture and fixture industry has a large number of firms which exist on a relatively high tariff structure and which would be losers too.

Certain parts of metal fabricating would be losers. You can go down a list of industries and you can find parts of very product-specific Canadian industry which, for one reason or another, are not up to par.

It is interesting, though, that this is the predominant forum of adjustment, if you read this as that. It does not seem to be heavily concentrated in any one industry. All industries have their winning aspects. Perhaps that says that industry is not the appropriate unit of interest. We should be looking at specific firms.

Mr. Barlow: Would adjustment within some of these so-called losers help them compete with their colleagues? I am thinking of modern technology. You mentioned furniture and fixtures. I am from Cambridge and I was talking with a furniture manufacturer in that area. He said his company looks forward to free trade. They are rebounding; they are coming back. They had a few extremely bad years, and now they will be bringing in some new equipment and more modern technology, something that industry has not advanced in. He feels they can compete. He says, "I know I am going against what my industry is suggesting, but I feel we would be in a position to compete."

Am I correct in suggesting that where there are losers, they might put themselves in a competing position with some modernization and new technology?

Dr. Harris: Absolutely. The major thing about free trade between the US and Canada is that a severe wage discrepancy does not exist, so there is not the drastic adjustment that would be called for vis-à-vis the newly industrialized countries.

Mr. Callahan: It works the other way, too. If they become more technologically advanced than our industry, it gets even worse.

Dr. Harris: There is a good side and a bad side. The good side is that economic growth goes up. Everyone focuses on the bad side. You have to remember that if China continues to grow at anything like the current rate it is growing, we will have a world economic boom which has never been seen. A very important factor to realize is that the prospect in these countries for economic growth is very large. If we can bring ours up anywhere close to the level of the industrialized countries, it will have an amazing impact.

In terms of the short-run adjustment, the answer to your question is yes. Evidence of all different sorts suggests that Canadian industry has been able to adjust in certain lines and compete, but that tends to be very management, product, firm specific. The record is admirable in most cases.

11:40 a.m.

Mr. Morin-Strom: Looking at the results at the back of your report on an industry-by-industry basis, I find it surprising that every industry shows increased output over the 10-year period and job losses are minimal, while almost every witness we have heard from has said there are going to be some winners and some losers. There do not appear to be any losers in your analysis. Why does your model not show any?

Dr. Harris: To reiterate my comments, the losers are masked by the aggregation that exists at the industry level. I was surprised. Given this kind of phase-in year, in all industries the patterns of protection that exist in the two countries, together with the adjustment in wages, suggest all

sectors experience an increase in real output, though there are some that experience a decrease in employment.

Given the existing terms and trade between the two countries, there do not appear to be any significant losers. Again, that reflects the substantial bulk of trade between Ontario and the United States. By the way, this is not true at the national level. This is very specific to Ontario. At the Ontario level, most of our trade is two-way trade, either intrafirm or intraindustry. That means interindustry shifts are relatively small.

Mr. Morin-Strom: Are you saying no secondary industries, which we have heard about most especially, are being protected by high tariffs? Are they subject to being devoured by larger, more efficient plants in the US?

Dr. Harris: I suggest the so-called devouring scenario is not borne out by either historical evidence or the analysis in this model. Devouring does not occur. Tariff reductions cause plant management and labour to think about what they are going to do. They rationalize; they modernize; they find market niches. The tariff structures are not so prohibitive now that it is going to be a cause for employment or output losses. The historical experience in Canada has been that the high-protection industries are the ones where the potential productivity gains are the greatest. Analysis suggests that those productivity gains would be realized, admittedly slowly, over a long period.

If you were to cut tariffs 100 per cent tomorrow, all the protection including the nontariff protection, it is absolutely true that the industries that could not adjust would be devoured, for the obvious reason that those could be swamped by predatory cost competition from large US firms. That is why it is important to have some phase-in period.

Mr. Morin-Strom: You are assuming that the individual plants in Canada will react during the phase-in period. In fact, would not the existence of surplus capacity in the United States be a more efficient way of supplying the Canadian market than restructuring or rebuilding Canadian plants?

Dr. Harris: That is a very good point. Yes, I do assume there is now large surplus capacity. There is no dumping in these numbers, or if there were, it would be prohibited.

Mr. Morin-Strom: In many industries, is there not sufficient surplus capacity to take the whole Canadian market?

Dr. Harris: Probably, in some instances. I do not think we are going to do away with any dumping provisions just because we might become a free trade area.

Mr. Morin-Strom: However, the prices in the US can be considerably lower in some areas where there may be a 25 per cent tariff protection.

Dr. Harris: That is right. That is why it is important. As long as they do not dump, even though the prices are lower, when you reduce barriers gradually, that is an adjustment scenario. Canadian producers are allowed to gear up and rationalize. If they dump, even with the tariff, they could wipe out Canadian industry.

Mr. Morin-Strom: I wonder whether you have taken into account the other major consideration, the fact that so much of that Canadian industry does not have the right to make those decisions here in Canada because the

control ownership of those branch plants is in the US. In those situations, why would an American firm look at trying to rebuild the Canadian plant to keep its smaller share of the North American contracts, rather than using facilities it already has in the US to supply the market and just phase out the Canadian operation?

Dr. Harris: There are two answers. First, it makes good economic sense. We have a very highly skilled labour force and they have very large sunk costs in the form of investment in this country. Why would they write it off that quickly? Second, the historical evidence of the experience we had with tariff reductions through the 1960s and 1970s suggests that rationalization, including branch plants, was the main avenue of adjustments. Some branch plants did leave but, on average, rationalization was the response. The response was not to exit from the Canadian location.

Mr. Mackenzie: The select committee on plant shutdowns and employee adjustment that we have referred to before gave us a number of cases, and there were some dramatic ones. Bendix Automotive of Canada Ltd. in Windsor, which had profitable plants, is a good example. The evidence before our committee showed that Bendix had made a profit in 40 of its 41 years of operation. Its rationalization still moved that plant, the operations and 500 or 600 workers to the plant in Milwaukee, or wherever it was, because of excess capacity.

Dr. Harris: I am not saying it did not happen. There are instances. I live in Kingston where we have large multinationals. Alcan is there, as is Du Pont. Both these plants have dumped product lines significantly, they have rationalized their production and they produce largely for the US market. That has occurred over a 10-year period. General Electric, Black and Decker--you can go down the list.

There are instances where it is true that they have moved to a US location, and I am not suggesting that some plants will not continue to leave the Canadian location. That is quite a probable scenario. On average, however, it has been suggested that is going to be the principal avenue of adjustment.

Mr. Morin-Strom: Does your model take into account, industry by industry, where the ownership control is and whether American ownership might lead to a different decision-making process for the Canadian plant?

Dr. Harris: The model, as in most of these economic models, assumes that economic activity is located where it earns the highest rate of return. If there are other considerations that enter into the calculation, they are not here.

Mr. Mackenzie: The ownership is also not there.

Dr. Harris: The ownership is not there.

Mr. Morin-Strom: However, the return is on an individual plant basis. Would the company look at the combination of that plant within the corporate totality, which could result in a decision which may result, supposedly, in a lower rate of return for that individual branch plant?

Dr. Harris: No. You cannot do that. It would be desirable to do it, but you cannot do it.

Mr. Callahan: What concerns me is a question my colleague Mr.

McFadden raised. There is a fine political line, where if your dollar goes below 70 cents, you immediately have to increase interest rates to try to attract US capital or investment here to come back up to that magic mark of 70 cents.

A lot of the benefits I can see that are projected by yourself and by other people I have talked with are really based on that dollar remaining around the 70-cent mark. I say that because you commented that the wages here are lower than they are in the US. That may be so in some areas, but with the question of international trade unions and the parity arguments for wages, I suspect that a lot of the unions are moving to parity.

11:50 a.m.

The only thing that is keeping us lower is the fact that they are being paid in Canadian dollars as opposed to US. That impacts on the benefit of producing something, just as it does in Taiwan or Korea. If we brought our dollar down to 23 cents, we could probably become the boom capital of the world in plants, jobs, industry and all the rest of it. That is what bothers me. With this scenario, are we looking at always being afraid to allow our dollar, through whatever means, to get back to par with the US dollar?

Dr. Harris: No. None of the calculations on the long-run, real-income productivity gains had anything to do with exchange rates. Exchange rates are conditioned by monetary policy, and monetary policy reflects existing price levels in the two countries in the long run. In the shorter run, the exchange rate does affect lots of decisions, for obvious reasons. Currently, our dollar is low; whether it remains there or not--

Mr. Callahan: That is why our exporting is so high.

Dr. Harris: Yes, the export surplus we are experiencing in Ontario right now is in large part because our dollar is depressed for reasons that have nothing to do with our export surplus. They have to do with our investment in the resource industries. The exchange rate is not an issue for the potential long-run benefits and productivity in real income. The exchange rate is an issue in the short term.

Mr. Callahan: The second question may be a very facetious question, but I am unfortunately a very paranoid person about the US, having lived there for a considerable time. When you were on the Macdonald commission and it went around looking into this, did anyone ever raise the issue of why these protectionist barriers suddenly came up? Did it have anything to do with an opportunity for the US to have greater access to our natural resources? That is a very far-out question, but as I see the US now, it is becoming resource poor, particularly in water.

You hear Mr. McMillan, the Minister of the Environment up in Ottawa, saying he would resist any large-scale sales of water to the US. As I say, I am paranoid; I have to find out whether any of that ever came out during your hearings. Is that what triggered the spectres of threats of large tariffs being requested by particular states on particular products? Better than that, did it ever come out that it appeared to be within the long-range plan of the US federal government?

Dr. Harris: There are two answers. First, the rash of protectionist bills in the US has to do with--

Mr. Callahan: Election year?

Dr. Harris: --genuine concern about employment losses in industries as a result of the overvalued US dollar and deteriorating competitiveness in a wide range of areas. I do not think it had to do with some senators' or congressmen's concern about Canadian water.

I have never heard an American trade official bring up the water argument. That does not mean it is not in the back of their minds.

Mr. Callahan: That is right. I would be very interested as these discussions are ongoing in whether that item arises.

Dr. Harris: I would hope our negotiators would hold the line on that one.

Mr. Chairman: Simon Reisman brought that up.

Dr. Harris: He was part of this group that was trying to sell water to the US.

Mr. Chairman: Not officially.

Dr. Harris: As a Canadian citizen, the only thing I can respond is if that were on the table, my guess is the Canadian population would reject the thing out of hand.

Mr. Mackenzie: It is a legitimate question that Mr. Callahan has asked, if you consider US continental policy solely in terms of defence. The US has used us for years as the alternative source for nickel when it was needed. Certainly, whether it is water, nickel or power, the resource base we have is something that would be considered were the Americans running into problems in accessing resources. The question raised by Mr. Callahan is an extremely valid one.

Dr. Harris: Why would you separate water from nickel? We want to sell nickel; that is what we are in the business of doing.

Mr. Mackenzie: I am not arguing that one; I am arguing the access source in terms of a continental policy, and in particular where defence is concerned.

Dr. Harris: Yes, you could be right.

Mr. McFadden: There is one question I was going to ask in terms of your research, not necessarily for this paper but in relation to your other work. You were talking earlier about the reasons for industries locating in Ontario and why they are still here. You commented on the fact that, given choices, if they were going to relocate somewhere else, companies might locate in developing countries rather than in the US. In your research, do you have any feeling for the numbers of companies and in what industry sectors companies are located here because of the tariff policies or nontariff barriers? What I am concerned about here is how critical the Macdonald national policy still is.

Dr. Harris: Historically, we had the national tariff in 1879 and that induced indigenous domestic industry, but it was really the Smoot-Hawley tariff in 1931 or 1932 and the Canadian retaliation which induced this rash of

US-based foreign investment. If you go back and read the Walter Gordon commission in 1956, it talks about that in detail. There is no doubt that incident in our history induced a lot of the branch-plant syndrome. As to why they are still here, as far as we can tell, the tariff plays a relatively negligible role in that consideration, relative to other factors.

Mr. McFadden: What are those other factors?

Dr. Harris: They are ongoing investment, a skilled work force, management capabilities, access to a reasonably large market--the Canadian market is small but it is not that small--and inertia in corporate decision-making.

Mr. Callahan: A stable government environment.

Dr. Harris: Yes.

Mr. Callahan: At least to this point, anyway.

Dr. Harris: Sure. When you talk to Americans, they talk about the problem with investing in any of these countries compared to Canada is that there is this stable political aspect, including the tax treatment of corporate income, which is a very important factor.

Mr. McFadden: Based on that, if there were some sort of agreement worked out with the US, you are suggesting the existence of tariff barriers vis-à-vis American imports into Canada would not likely be a major factor in a company's deciding whether to locate here or not, in the main. There may be some that might be affected by it, but I gather, based on your research, your conclusion is that it would not be a very pervasive factor.

Dr. Harris: That is correct.

Mr. Chairman: Looking at table 9, it could be computed that the productivity gains on a five-year elimination of tariffs is about 1.8 per cent and the other two are not quite as good as that. Am I accurate in saying that?

Dr. Harris: That sounds right. I cannot see where you are getting it off this table.

Mr. Chairman: It was computed by our researcher, but I think he may be taking it from table 9.

Dr. Harris: I think what he probably computed was not productivity but changes in constant-dollar provincial product, which is slightly different.

Mr. Chairman: All right; it is gross provincial product. Would that work out to about 1.8 per cent?

Dr. Harris: It would be something like that.

Mr. Chairman: In your earlier report with Professor Cox, did you not suggest a gross national product gain of about three per cent?

Dr. Harris: Actually, that is low. There are different ways of measuring these things. What we call a real GNP number goes up by about five per cent, but our index which we call real income, which is a measure of output appropriately adjusted for price changes to reflect that firms and

consumers can purchase cheaper inputs and consumer goods, goes up by about 8.5 per cent.

Those calculations are after all the adjustments have been made, and we are looking at a 20-year to 25-year scenario. It turns out that if you run these projections out--wages have to be adjusted; they adjust very slowly--you get those types of gains in the long haul.

12 noon.

Mr. Chairman: I see. If you look at a longer haul, the total gains will continue to grow.

Dr. Harris: Yes. As I said, these projections were put together under a set of assumptions which tended to amplify the employment consequences at the expense of the productivity consequences. That reflects principally on assumptions one makes about the extent to which wages adjust to competitive pressures. What will happen to wages in the immediate short haul is actually an open question. It could well be that wages will adjust faster than I have assumed here.

Mr. Mancini: What do you mean by wages adjusting?

Dr. Harris: Wage contracts. If a typical union's contract--

Mr. Mancini: I assume your model expects that they keep up with inflation.

Dr. Harris: There is no problem with that. I am talking about real relative wage changes; that is, the real wage, the wage relative to the price at which people purchase goods. There will be industries which experience pressures for real wage reductions. Other industries will experience pressures for real wage increases. Some industries will require labour to be shed, while others will require the plant level to increase.

The adjustment in the wage is, in the first instance, the principal avenue for changes in competitiveness at the individual level and in the exchange rate at the overall economy level. It is very important for these short-run calculations to assume how wages adjust. The bottom line is that if wages adjust faster than I have assumed, and wage reductions in industries which are in a competitive disadvantage occur relatively more quickly than wages increase in those industries which have an export advantage relatively faster, then these gains you are referring to will accumulate at a relatively faster pace. As a minimum, it will take 15 years for these gains to be realized.

Mr. Chairman: Another point I wanted to raise was in table 3, which emphasizes the figure we have often heard that half our exports in manufacturing industries are in automobiles; $20.7 billion out of $41.7 billion. Your report starts to prepare us for suggesting that manufacturing generally does not have a healthy future. On page 6, you point out that there is no economic law or theory that suggests that a strong manufacturing sector is a key to a healthy economy. Then you proceed to suggest that, as far as employment is concerned, manufacturing is the area in which there will be the greatest number of gains.

I do not know. There seems to be something incorrect about that. I am not sure why.

Dr. Harris: Maybe it is my writing style.

Mr. Callahan: I will give you nine out of 10 on that.

Dr. Harris: If I graded it myself, I would probably give it a 75.

It turns out that the structure of protection between the two countries is primarily on industrial products, which impinges on manufacturing.

Mr. Chairman: Even the auto pact.

Dr. Harris: Including the auto pact. Certain parts of our transportation equipment industry, particularly the parts sector, are not doing particularly well on productivity grounds. A free trade area would include genuine free trade without the safeguards in parts. There are some significant gains to be realized there. However, it is disturbing that the Ontario manufacturing sector has this rather unbalanced structure. We are seriously at risk to developments in that industry, both off North America and within North America. For better or worse--and probably for worse--I would argue that is the way it is. I hope that Ontario manufacturing would develop a more balanced and diversified base, quite independently of free trade with the Americans, because an abrogation of the auto pact would have very serious consequences for this province and this country, far greater than any other sectoral arrangement we could imagine.

Mr. Chairman: Your study presumes it will be abrogated, does it not?

Dr. Harris: In the calculations that were done, I did some calculations on the abrogation of the auto pact. The other results assume it is not abrogated but that we have complete free trade in automobiles.

Mr. Callahan: Then the auto pact remains.

Dr. Harris: The auto pact has some funny provisions in it. Because of the way the safeguards work, the content restrictions and the sales-to-production quotas, we are not getting complete access to low-cost parts right now. The parts business is currently being protected under the provisions of the auto pact. These calculations assume that protection will diminish.

Mr. Chairman: Are there any further questions?

Thank you very much, sir. Your study is obviously very valuable to us. Your initial study and your work for the Macdonald commission were the basis for a lot of this debate getting going. That goes back to last year. You have assisted us a great deal by updating your study with regard to the Ontario economy and we appreciate it.

Dr. Harris: Thank you, Mr. Chairman. I was glad to appear and I wish you the best of luck in your deliberations.

The committee recessed at 12:07 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, APRIL 10, 1986

Afternoon Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

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Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes
Mancini, R. (Essex South L) for Mr. Knight
McLean, A. K. (Simcoe East PC) for Mr. Hennessy

Clerk: Arnott, D.

Staff:
Cotton, B., Research Officer, Legislative Research Service

Witnesses:

Individual Presentations:
Beigie, Dr. C., Director and Chief Economist, Dominion Securities Pitfield Ltd.
Stewart, J. K., Vice-President and Economist, Dominion Securities Pitfield Ltd.

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, April 10, 1986

The committee resumed at 2:03 p.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: I call the meeting to order. This afternoon we have Carl Beigie, chief economist with Dominion Securities Pitfield Ltd. and a well-known economist in this country, having been with the C. D. Howe Research Institute. With him is James Stewart. Dr. Beigie has an oral presentation and will respond to questions. In responding to questions, he is looking for particular areas of concern the committee may have.

DR. CARL BEIGIE
JAMES K. STEWART

Dr. Beigie: Thank you very much, Mr. Chairman. I would like to make two points. First, I am not sure how long I should plan to cover in my oral remarks.

Mr. Chairman: We have the whole afternoon, sir.

Dr. Beigie: I do not want to try your patience too long, so I will do my best to be succinct. Personally, I find the question period is usually the time where we can have the most useful discussion.

We are not appearing here on behalf of Dominion Securities Pitfield Ltd. Jason and I work together there in the economics department. We are working on a book on the subjects I am going to be discussing with the committee this afternoon.

So that it is clear, my own preference is that I am appearing here more with my academic hat on. I teach at both the faculty of management at the University of Toronto and McGill University.

The subjects I would like to raise with you this afternoon reflect work I have been doing since I first came to Canada in 1971. I actually started working on some of the subjects that are of great concern to this committee and to this government back in 1967 when I was asked by the old private planning association to do some thinking about the automotive agreement between Canada and the United States, a subject I have tried the best I can to keep current on ever since.

I have taught in the field of Canadian-American relations at McGill University for almost 15 years. I teach from the perspective of the business student, rather than the economics student.

The reason I very much appreciate the invitation to be with you this afternoon is I sense that you and the country at large must be getting to a point where you are rather tired of a constant debate, which seems to be going in no clear direction, on the question of the desirability of some type of negotiation, within the bilateral context, between Canada and the US. I travel

around the country a fair amount, and long ago I moved off the desirability question because quite frankly, I do not know whether the deal that might be negotiable between the two countries would end up being desirable and in the national interest.

I, as anybody who is sensitive to the broad range of issues that will be brought up in the context of whatever negotiation proceeds, will want to see specifically what the deal is before making a final judgement on whether it is a good or a bad thing, as any intelligent person would.

My sense is that much of the debate is motivated by various types of self-interest. The self-interest can even take the form of people on the platform who speak for the effect of increasing their future speaking revenue. That is one of the most important forms of self-interest being pursued by many people.

In my view--and I speak harshly of my own profession, economics--there is a tendency to use the opportunity to put forward highly theoretical arguments. In my judgement, after many years in this policy analysis business, not all but much of the discussion has lacked what I would regard as really politically relevant political economy analysis. In my experience, the notion that we can solve any issue on the basis of economics alone is wrong. There is nothing to be sneered at in the political process. That is what we live in. It seems to me we must deal with issues within that simple reality.

I speak to you as an economist this afternoon because that is the basis of my training and of my experience in this country. Almost all my professional experience has been in Canada. I have made it a practice over the years to try to understand the Canadian perspective on policy issues. I personally regard economics as important, but I do not believe it is the only thing that is important for the conduct of policy by government.

Let me start with what I regard as three basic challenges facing the Canadian and the Ontario economy. These three stand out and, in my judgement, they are all interrelated from a policy-making standpoint. We, as a nation, must complete the adjustment that we are struggling to make for the realities of the challenges of the 1970s.

The Canadian economy is whipsawed into a very difficult international situation. Laying blame on who or what caused it is secondary in importance to trying to figure out how we are going to keep along the path of correcting all the distortions that many Canadians, both in Ontario and around the country, continue to suffer. The growth of the Canadian economy and its acceleration on a long-term basis is, in my judgement, the key to completing that adjustment out of the difficulties of the 1970s. Without growing to this nation's basic potential, you in government and the country as a whole will constantly be in a state of squeezing, squeezing, squeezing.

<u>2:10 p.m.</u>

My own sense is that we as a nation put forward, in the late 1960s and in the early 1970s, the foundations for a very humane society. At that time we assumed the nation was going to be able to grow as it had in the previous 20 years, in the post-war period. That was, on average, a two per cent adjusted per capita productivity growth. Since 1973 the Canadian economy, on average, has grown by less than half a percentage point. The expenditures of our humane social system have continued to grow at roughly the rate determined by demographic factors. Our revenues have not grown as rapidly because of the fact that productivity has not come up to our earlier expectation.

The second problem besides squeezing those humanistic social programs that I personally very much support is that we will have increasing difficulty, if we do not go for growth up to our potential, in keeping the most entrepreneurial and innovative people in this country.

For a period of four years at the C. D. Howe Institute, I studied carefully a very comprehensive set of issues in terms of the Confederation debate that went on in the late 1970s and early 1980s in Quebec. I find a great deal of similarity between what might happen in terms of the decision we now face on trade policy and some of the discussion and the debate that went on in Quebec in that very crucial referendum debate period.

Thus, the first of these challenges is to complete the adjustment so we get back to the full potential of what our people, our resources and our system can provide.

The second of our significant economic challenges is to adjust for the fact that we have lost in this country the relatively easy growth options. We have, as we all know and as we see very visibly in the energy situation at this time, a far different perspective in terms of the promise of Canada's natural resources for the assured economic development of this country that we assumed during the period when we were building up the foundation for the megaproject strategy.

The simple fact of the matter is that while we still have abundant resources and we still have desirable resources, the notion that resource prices are going to climb relative to nonresource prices is subject at least to serious question. This is a subject that I think has been discussed very well in terms of the Macdonald commission approach.

The second aspect of this loss of the relatively easy growth options--growth is never easy, but it appeared relatively easy in the earlier post-war period--is because primarily we constructed for this country what I choose to call a very well appointed cocoon. Tariffs, from the date of the national policy of 1879, were put in place that served the purpose of trying to foster manufacturing, which has been of principal benefit--not of exclusive but of principal benefit--to Ontario. As a result of what has happened in the world economy, the implementation of first the Kennedy round and, much more important, the Tokyo round of tariff reductions has essentially reduced the effective impact of that tariff protection.

Indeed, I would argue to you today--and I will come back to this later in my remarks--that in terms of the siting of production decisions in North America, Canada's traditional protective approach through the tariff has paled in significance to the implication of actual or threatened nontariff barriers established in the US. It is a simple reality that some of Canada's most dynamic companies are choosing to locate much of their incremental capacity in the US for fear that they will be shut out of the US market if they are not able to say they produce in that market.

The third of the basic challenges is much more of a structural explanatory type of what I think we must be doing as a nation. What we have done historically is to try to earn very high income levels by world standards, producing at a relatively late stage in what is called the product life cycle. The simple fact of the matter is that as a result of what is going on in the international community, with very mobile capital, technology and management, when a product becomes standardized it tends to be shifted towards the lower-labour-cost areas of the world where there is political stability in

particular countries. If we want to maintain a basis for giving our people, our workers and our government revenues the benefits of relatively high productivity growth, we as a nation must collectively put more emphasis on moving to an earlier entrepreneurial, innovative and adaptive phase of the product life cycle.

There is going to be no easy way to get into the effective responses to the three challenges I have described. I have argued frequently that Ontario especially is going to face a very serious transitional task. To think that we are going to make that transition effectively or relatively easily by looking inward in Canada, by moving away from a more outward-looking approach and saying we will do it first in Canada and then we will look to our trade relations, in my judgement constitutes the real leap of faith out there.

We had the option of doing that subsequent 1911 when we turned our backs on the possibility of a free trade deal with the US. We had the option in the post-war period of getting on with the task of creating for Canada what many people hold out as the answer we should be pursuing. If we could achieve it, fine. But my argument to you this afternoon is essentially that I do not see how we are ever going to get all the provinces of this country working together as a nation, as opposed to a group of nation states, to achieve what I call a national development, growth-oriented strategy rather than a national industrial strategy. We must have some focus, and I will come back to that later.

Certainly the multilateral trade negotiations of the General Agreement on Tariffs and Trade are desirable. I hope the US is being honest in saying that it sees the possibility of a Canada-US agreement within the context of moving us more effectively into the MTN forum. But what kind of provision--you must ask yourself this carefully--does the GATT framework allow for transitional purposes? The simple reality ~~is~~ that it is a very simple approach to tariff reduction under GATT: You get a certain number of years to reduce the tariffs, and they phase in nontariff barriers that are being reduced. But I would argue strongly that Canada, probably uniquely among all nations, has an urgent need for what I regard as a finely tailored transitional agreement that will not fit easily within the GATT rules.

My argument, at least for consideration, is that it is possible a bilateral agreement would be a means for assisting in this transitional phase. Therefore, and I want to be very clear about this with you this afternoon, the bilateral option may--not certainly; we cannot be assured of what the US is going to ask for, and depending on what they ask for, we have to know what we would be prepared to give--the bilateral option of formalization of the most important trading relationship any nation has is a potential means--not an end in itself, but a means--because I have long believed that the third option as put forward by Mitchell Sharp in the early 1970s is the desirable end we should try to achieve.

<u>2:20 p.m.</u>

Indeed, it has made me rather irritated that much of the comment has been focused on the question that we failed in the third option simply because we could not get the other countries to buy our goods. The most important part of what Mr. Sharp said in his paper in International Perspectives was essentially that Canada had to achieve a better performance in terms of the conduct over the policy levers it had control of.

Therefore, I would argue that the end should be clear: To make Canada a

more effective sovereign nation with use of the possibility of an agreement with the United States as a means. I think we should go for it; I make no bones about that. I am not prepared to say there is no condition in which I would not walk away from the negotiation with the United States. I could fill a book on the hypothetical scenarios in which we should walk away from whatever that agreement would be.

With respect, in my judgement, Canada is spending an awful lot of time on what I regard as analytical red herrings. There is fear expressed constantly--I heard it again this morning in a presentation I gave in Brantford--that subsidies will pull out as soon as we have free trade. The question I ask, and I ask it seriously, is what prevents them from pulling out today?

If the subsidiaries have an opportunity to produce for a larger-scale market, to produce for a more specialized market and to live within an environment that is more conducive to progressive, dynamic efficiency in Canadian operations, I do not see any reason why the majority of these companies would not elect to stay. Why would they give up an asset, both the physical assets in which they are producing and the goodwill, whatever they have, that they have acquired in terms of the Canadian consumer?

The second of what I regard as analytical red herring issues is that we must wait in this country until we get free trade within Canada. I accept that we function in this country too much as a group of nation states. Again, I ask: How long are we prepared to wait? What gives us any confidence that, in the absence of fire at our feet, we are going to get all the provinces to give up on what I regard in many cases as extremely wasteful practices?

A third red herring is that we have not done the studies in Canada. I react very negatively to this. I know of no issue that has been more carefully studied in this country than the Canada-US trade option. If I had infinite amounts of money, intellectual power and time, I could not answer analytically many of the questions the political leadership of this country must be concerned about. I want to know, very clearly, how business will respond to new opportunity. That is what I need to know.

There are precious few industries I am prepared to wipe off the Canadian industrial structure simply because of a freer trade arrangement. I ask for the analytical studies to prove that those industries simply could not compete that people throw out and say are going to die. There are industries that are going to have an extreme amount of trouble. As I said this morning, although American beer tastes like dishwater to me, we are going to have a devil of a time competing in the brewery industry if, through our provincial regulations, we insist that you have to produce in a province if you want to sell the product there.

I heard one of the leading brewery executives two weeks ago in a session in Montreal talk about how they produce 10 million barrels of brew a year in some of their more modern plants in the United States. Many of our breweries are producing at a range of about 250,000. We will get killed by that, but there is an alternative to just saying, "No, we cannot include the breweries." We can get together as a group of provinces and say, "What we have been doing has not been in the consumers' interest or in the long-term interest in terms of the industry's interest in achieving international efficiency."

I am not going to go on forever about what I regard as red herrings, but I heard the fourth on the Canadian Broadcasting Corp. when I was driving back

this afternoon, that is, the auto pact is going to be in terrible trouble. I know the auto pact very well. I do not hear in the press anybody who seems to understand anything about the auto pact, but all that is necessary is to read a little. It is a simple reality. The safeguards are virtually irrelevant to the Canadian auto industry today.

The safeguards would be fully met at a deficit on Canada's part of $5 billion in Canada-US trade. During the past two years we have had surpluses of about $5 billion. There is some reality to how Canada shapes up in terms of the international perspective, but I tell you plain and simple that Canada in the auto industry is a superior production location at current exchange rates. To throw up to the public the fear that it is going to be closed down does not do the public much service.

The fifth and final thing I want to mention as a red herring is the fear that Canada's cultural sovereignty would disappear. I feel pretty strongly that I am now by choice a Canadian. Canada is fundamentally different from the United States, and I am happy it is different. This is a gentler, calmer, more humane country than the US is in general, and especially in terms of governmental policies.

The real issue that has to be brought up time and again is whether it is ownership you are concerned about or the control of all companies, regardless of who owns them. In my view, we need to think very seriously in this country about the re-regulation of many of our most important sectors for the full development, especially of the noneconomic aspects, of this country's future.

If the United States or any company wants to get into Canada and does not want to play by our rules, it is gone. You produce in this country in any of these sensitive areas and you follow the rules we play by. If the United States does not want to allow us to have different rules from its rules, that is one of the conditions under which I would walk away from the negotiating table.

In the time that remains, let me talk about what Jason and I have been working on in a book that I wish I had more time to get done. We feel it is an idea that is worth some national discussion. As I have indicated, I am very much inclined towards being a strong supporter of a national development strategy. The notion that the free market will solve everything is not my notion of how the political economy in the real world must operate. I have taken a five-broad-part approach to a national development policy. I will go through the parts fairly quickly and then invite your discussion, comments, questions and challenges on any of the points I raise.

In the context I sketched out to you in the earlier part of my remarks about what we are going to have to do to bring this country closer to its full potential as a nation, I feel we must upgrade the share of the actual output in this country that goes into the investment process. The share of what we produce that is going to building for the future must be increased. When I say that as a person employed by one of our major investment companies, people say, "That is what you would expect to hear from him."

Let me be very careful about this. I have a much broader view of investment than Jason and many of my colleagues have. There are four broad types of investment, and some of the other than traditional ones are gaining in relative significance.

2:30 p.m.

Plant and equipment provide many of the jobs for our young people and people who lose jobs in other occupations. Also fundamentally important is the infrastructure. I am going to come back to that because it plays a very important role in terms of how we are conceiving this national development strategy.

A third kind of investment is research and development. I am not a big fan of research and development, that is, goals set in terms of broad shares of the gross national product going to R and D. They will get killed in that, and we will get killed. We will have to focus the scarce amount of money that this country will always have, given its size, in R and D activity.

However, I am not against government getting actively involved in the research and development strategy of the country because it has been proven time and time again that nations can--and the United States does--create their future comparative advantages through wise research and development innovation strategies.

The fourth type is something I feel very strongly about, especially since I am wearing my university hat this afternoon. I am absolutely convinced that education has to be perceived as one of the most important investment activities of the future.

In the past, technological change essentially augmented our physical capacities. New capital augmented our speed, our strength and our manual dexterity. That is what most technological change did in the past; that was the industrial era. We are slowly, and in some cases rapidly, but surely moving into a more information-oriented age. Technological change, and the ability to bring about technological change, will have to be embodied with what people have in terms of their mental skills.

Storage, manipulation of data for decision-making purposes and memory are the things to which the technological change of the current variety is leading. To take full advantage of this, we must put an emphasis on our children's ability to make use of that capital, not with their hands so much as with their thinking skills.

The second of my five parts is that we need a focus for our national development strategy. Jason and I have been working on what we call "seven core infrastructural sectors." Let me run through them very quickly with you. This is not a strategy for ensuring that anybody who produces in this area will be protected no matter what and subsidized like crazy. The goal is to set the achievement of certain targets as national and provincial objectives. Let me run through them with you.

First, the optimization of the use of our increasingly scarce arable land and water resources, forest usage, silviculture and what not seems to me to be absolutely critical as one of the objectives of a development strategy. Second, we must seek to maximize the net-worth return on the exploitation of our nonrenewable minerals for the country as a whole.

Third, we must seek to achieve security in our long-term energy supply. One of the things I am currently working on excites me more than virtually anything else I have ever worked on in my professional life. This is the study for a federal advisory committee on hydrogen as an energy. I think back about what happened in terms of Canada when we were at the start of the electronic age. We were world leaders at that stage, but look where we are now.

Interestingly enough, we do have a second chance to be first in a very critical look to the future. They call it fuel source and fuel currency, that is, in hydrogen. It seems to me imperative that we as a nation, or any industrial nation, especially one with a capacity to supply this from indigenous sources, should seek to ensure long-term energy supplies at prices that are no greater than the world price level.

The next four, which complete my list of seven, constitute objectives whereby we seek to maintain world-leading status where we have it and strive to achieve it where we do not. The four critical sectors are: the transportation of goods and people; the supply of an integrated telecommunications network--and telecommunications will be the equivalent of railways in the 21st century; the supply of outstanding medical and health services; and the achievement of world-class status where we do not have it in education and skills enhancement for our future labour force.

We should debate and set those national objectives internally. Before we even walk to the bargaining table, we should make clear to the United States that we intend to pursue those objectives to the best of our ability and that we will not sacrifice them to have freer trade with the US. I have talked about this range of core infrastructural sectors with a number of leading thinkers in the United States. They have absolutely no fundamental problem with the pursuit of those objectives and regulations to help achieve them.

The third in my list of five is to pursue freer, not free, trade. When you have a classification and ask, "Will you have free trade or protected trade?" an economist will move more towards the free trade end of the spectrum. However, there is no notion in anything I have ever heard or read from the United States that we will go to the full extreme of the purest free trade, which effectively means there would be no role for government in Canada. There will be a long-standing, fundamental role for this country in the kind of agreement I think we should be talking about.

Nontariff barriers are the critical issue. There is no question about it. My own sense is that, if we try to solve every nontariff barrier issue the first time around, we will lose. It seems to me we should be doing something like the following: We should identify a list of five nontariff barriers that most upset us about what the United States does and the United States should list five of what Canada does that most upset the United States.

We should work for a five-year period to formulate workable codes for what are and are not legitimate forms of government intervention in these areas. In five years, we should come back, review progress and talk about possibly doing another five. I do not regard trade negotiations as ever being complete. They are a process, a sequence. The notion that we will solve everything in one fell swoop is, quite frankly, silly.

What we need to do in terms of the negotiation with the United States is to reduce the uncertainty. Frankly, Canadian businesses, regardless of who owns them, are faced with an incredibly difficult task. They do not have large, internally secure markets. To reach the 25 million Canadians, a firm located in the Metropolitan Toronto area has to cover very large distances to be able to compete. In those outlying regions, in comparison to Toronto, we are finding there is very little true protection for the Canadian producer that is going to be left that is not provided by nontariff barriers.

Fourth on my list: I cannot stress enough, and I go back to what I said earlier, the inevitability of difficult transitions. I would be very happy,

and so would Jason, to talk about whatever transitional issues may be of concern to you. In the interest of time, let me raise two issues I think are of fundamental importance.

I have not heard what the general view in the economics profession is about what I regard to be the most critical transitional issue if we proceed with freer trade with the United States. That is the question of the exchange rate that will exist between the two countries. I have heard, as I am sure many of you have heard, that Senator Baucus is saying that the US should not enter into a freer trade agreement with the Canadian dollar as low as it is.

2:40 p.m.

Quite frankly, and I say this only partially tongue in cheek, under a free trade arrangement at current exchange rates, Canada would be the south of the north. We would have an opportunity to achieve roughly equivalent productivity to what is achieved in the United States. At the current exchange rate, adjusted wage rate we are a very competitive country, and this is a very competitive province. The Americans, especially in the Senate, naturally will be seeking to have the agreement such that the Canadian dollar will be put at a very high level.

My own view is that during the transition we should seek to have a pegged Canadian dollar, but not significantly different from what it is today. There should be a band of roughly five per cent up or down within which that exchange rate can fluctuate. However, any notion that it will be allowed to float freely during this period runs a serious risk. I am very confident about what Canadian producers are going to be able to do in what we are talking about this afternoon.

As a result, the foreign investor will see in Canada a significant opportunity for a productivity increase and will also see that Canada will be in a very good position to benefit under this. There will be a tendency for capital to flow in, which will tend to drive up the exchange rate. It will make our transition many times harder if we allow that to happen. I would let the exchange rate freely fluctuate with some limits, but only after we have successfully completed a 10-year to 15-year transition period.

Many of my friends are going to wonder about the second of the things I want to talk about on the transition because I do not have this reputation, but I have been consistent since I came to Canada in believing the degree of foreign ownership in this country is beyond the effective critical mass. I would argue that there should be a transitional agreement on investment of a physical or ownership kind in this country. In other words, Canada should say, "We are not going to be able to allow a massive takeover." If Canadians, as I suspect will be the case, are relatively slow to see the opportunity, you will find the Americans will come up here much more quickly after seeing the opportunity of a freer trade arrangement. Therefore, regardless of investment in Canada, it will be in the Canadian interest to bargain fairly toughly for a transitional increase in at least some modest barriers to investment, especially in our poorer industries.

Fifth and finally, regardless of what happens in the trade arrangements, we are going to have to deal with complementary policy initiatives. I am sure you have heard as often as I have about the problems with the Canadian taxation system. They are serious. We are going to have to treat the taxation issue as an integral part of the overall package that we put together in the freer trade negotiations with the United States.

I feel very strongly that a complementary competition policy is necessary. I have used competition policy as my favourite example on frequent occasions for effectively saying that the biggest problem this country has at a policy level is its never-ending supply of back burners. We must finally bring competition on to the front burner and get on with it. I do not think the United States has a competition policy approach that is appropriate to this country, but doing nothing is not appropriate either.

Finally of the complementary policies I would like to discuss in these opening remarks, in the context of moving in a clear way towards freer trade with the United States, we have to move as quickly as possible towards achieving a common market within Canada. Many will tell you that we should wait until we get one before we negotiate with the United States. You would be waiting for my great-grandchildren if that is your case. I am convinced of that.

Let me conclude, because I have gone on, and I appreciate your patience. As I suggested, and I want to close on this point, the true leap of faith is not entering confidently into a discussion with the United States about a sensible, mutually advantageous trade agreement. The true leap of faith is either those who say the status quo will be good enough or those who say we can walk away from the United States and get agreement within this country that we will get the national industrial strategy that will make us whole as a nation and will make us able to compete effectively in the dynamic world enconomy we face today. We do not have time to wait. We must get on with it in our interest and in the interest of our future generations.

If I may stop at that point, I will invite comments and questions.

Mr. Chairman: You have given us a lot of fodder to discuss with you. I have three pages of notes here and I do not normally take very many notes.

Dr. Beigie: That is more than I have.

Mr. Chairman: It is mainly because you did so much in point form. We had to make sure we got all the points.

Mr. Mackenzie: From the number of points you made, I must confess you lost me somewhere through the presentation. It started out, as I saw it, as a rather rousing endorsement of the bilateral trade talks and a pitch that was supportive of the market economy. Halfway through, I began to wonder about a number of caveats or reservations that you threw in. Then you wound up with the final pitch in support again. Perhaps I read it wrong, but I had some difficulty following exactly what you said.

You started out by saying that we must be getting tired of the debate, and that triggered a bit of an anti-reaction with me right off the bat. I do not find that is true. Mind you, I want to ask you where and who the people are who are making money on the speaking engagements. I am not in the big leagues, but I have been doing enough of it, and I have not taken a cent for a speaking engagement in my life. I have two coming up on Tuesday and Saturday this week that will both be large meetings.

I am sure you are aware of the internal Tory document that caused quite a bit of fuss in the House of Commons. Some of us had copies of it here. It indicated that the less discussion we can have in the country the better, because the more people get to know about it, the more they are not likely to support the process. I guess that is why I was triggered a bit by your opening remarks.

One of the things that has been wrong in this issue is not that it has not been on the Canadian political scene for decades, but that there was no debate and that the position the Prime Minister took in his leadership campaign was totally reversed once he was in the House and the free trade initiative were set up. I do not know whether that bothers you, but it sure as hell bothers me. I do not know know whether you have any comment on it.

Dr. Beigie: Yes, I do. I appreciate that comment. Let me make very clear what I mean. I think the debate is tired with people just putting forward set positions. I personally agree very much that the federal government has a task. In my opinion, the federal government has made a mistake by assuming that this issue can be slipped through the general public.

I do not regard the documentation that I have seen from the federal government as being of a quality that will be necessary for something that is probably the most important issue on most Canadian's minds. It affects not merely the issue of sovereignty and all that, but it affects people's fundamental concerns about whether they will have a job next week. It is fundamental, and I have made my position very clear on a number of occasions that I think the federal government will have to get on with it because most of the documentation that is out is bunk.

On the other hand, the notion that we will be able intellectually to answer the questions that many people have on the basis of more detailed study, at this point, is wrong. I have felt--and a number of the other people who have treated this as a scholarly subject have basically felt--that we had long ago finally come to a point where it was essentially an issue of political discussion and political will.

2:50 p.m.

I am in the same position as you. I spend a lot of time on the platform too and I do it without charge. I have a heard a number of people in recent weeks--I will not go through the process of naming people--and I do not understand how they are really adding to the public understanding. They are adding to the titillation of the general public. There are great jokes, fine lines, and that is lovely, but are they really adding to the public understanding of something the public is concerned about?

There is no lack of interest among people generally. They do not hear the kinds of things you will give next Tuesday and Saturday. What they are basically saying is, "Come on, we have heard the set positions here and the set positions there." I am not a pollster. That is the last thing in the world I would claim to be. I remember a comment that was made in the referendum debate, and I think it applies here. There is 20 per cent of the people firmly on one side, there is 20 per cent of the people firmly on another, and nothing is going to change their minds. That is the way the democratic system works. There is the majority, 60 per cent in that numbers game, that wants to hear relevant analysis of what it is going to mean to them, to their country and to their children and their prospects.

As is clear from the fact I am prepared to spend this much time, I do not get at all tired of the subject, but people who have to sit around and debate the number of angels you can put on the free trade pin must get a little tired. I personally do not see this at a federal level either. It seems to me that somewhere there must be an opportunity to move beyond the set speeches.

For what the comment is worth, it seems to me that we have a tough cookie in Simon Reisman. Many of you know him. I know him well and I worked with him quite a bit back in the old days when I was working on the automotive agreement. I was working in those days as somebody who was living in the United States. That is one tough hombre when it comes to the Canadian interest. I personally am not fearful that he is going to sell us down the river.

Mr. Callahan: He might sell our river, though.

Dr. Beigie: That is a good point.

Mr. Mackenzie: Are you investing in that grand canal project?

Mr. Callahan: Let us sell one that is not polluted. That is my concern. He can sell--I had better not mention any.

Mr. Beigie: Let me just say I have sufficient confidence in the democratic process in Canada that, if this federal government tried to hoodwink us, there is no bloody way it would be re-elected.

Mr. Callahan: It will not be re-elected anyway.

Dr. Beigie: I am not going to comment on that.

Mr. Mackenzie: In our party, we cannot afford to live by the polls, but it is interesting that since the debate finally started and they were not successful in the effort to keep it off the public stage, the rather heavy indications of support have gone down in every single poll taken, with respect to the public perception of whether it is a good idea. The majority is still favouring it in the last polls I saw, but the margin has dropped by about 20 or 22 per cent over a number of months. I think that is part of the debate on the part of the people getting answers and the very fact it was not out in the open.

The other point I want to ask you about is that you are calling on us to take the leap of faith, and it is the same as the Macdonald commission did. I think I understand. I think that was an ideological issue, because I read very thoroughly in the comments that either we take the leap of faith and enter into such an agreement or we will be faced in a number of years with a planned economy. Dealing with that subject, both people for and against free trade have made the argument before this committee, and made it strongly, that one of the problems in Canada is that we do not have an overall industrial strategy. We have never really had one in this country.

It also has been driven home to me in a number of hearings we have had on plant closures and situations that we have a branch-plant economy that has not done the research and development, whether that is important or not. I hope your pitch was not that the government should be funding that and not some of the companies.

What I am really asking is, with no industrial strategy to decide what we want, whether there is something worth protecting or where we are going in this country, with a branch-plant economy and the growth of pretty powerful multinational conglomerates that are moving in and moving plants around the world today, how in blazes do we take this leap of faith and enter into any kind of really comprehensive talks without locking the door before we decide where the hell we want to go?

That is probably fundamentally what is really bothering me as well. Nobody gives us the figures; I do not think anybody can. However, more downsides than upsides have been articulated to this committee. We are asked by people like you to make this leap of faith. We simply have to do it. We cannot leave this on the back burner or what not for ever, but we have no industrial policy in this country and we have an economy and a branch plant structure that we do not control now. We will have even less control if in any substantive way we open up that border in our relationship with the United States.

Dr. Beigie: The people who ask the country to believe that if we turn away from an opportunity at least to negotiate with the United States today in pursuit of a national industrial strategy are those who are really asking us to make a leap of faith. We have a record. We have never been without that opportunity of having such a national strategy for this country in the past, but we have not used that opportunity.

I would be the last to say to you there is no problem, but I basically try to tell you this because I have grown, as have many of my colleagues, quite frustrated with the pursuit of what people say is a national industrial strategy. I say, "Let us talk about it seriously." I have a dickens of a time myself--maybe this committee has had a different experience--when it comes down to the selection of people who want to be given special treatment. I do not see the fundamental economic analysis for that.

As a result, not as a person or a pair of people who are saying to the country, "No, just let the free market answer it all," I have tried to put forward to you the seven core infrastructural factors that, if we were able to achieve the objectives I would define as desirable for the country, would give us an opportunity to create an overall environment within which a number of our industries could perform very well.

I differ from some of the people who have come on the advocacy side of freer trade. I cannot say I am for or against it. I refuse to say that until I see the specific details. My sense is that the government of Ontario has now taken the position it is at least understanding that we now have a national government that says, "We are going to have this negotiation."

Like other people who are more analytically oriented, I want to take a look at some of the things, and I just use one example, the exchange rate. That is a fundamental issue, and I do not know what to read or recommend for you to read that would indicate what the appropriate policy should be.

Let me summarize quickly. I am not against a focus for this country's future development. It will not be judged on economic criteria alone, nor should it be. The notion that Adam Smith said that the invisible hand will solve everything is put forward by people who have read only certain parts of Adam Smith. They have not read the whole thing.

There are a number of things that give justification for intervention on a systematic basis by the government for the future development of the country. I feel very strongly about that. I am not one of those guys who goes out and says, "Get government out of everything." I think that is silly. We have to make some practical, pragmatic decisions. Within our political system, which I think is a rich political system--I really do; I do not care what anybody else says--we must deal with the pragmatic options and try to figure out what is in the best interests of the country and not on the basis of philosophical ideological debates. That is where I come from.

3 p.m.

Mr. Ferraro: I found your talk very interesting, and it prompted a number of questions. When you were saying we would have in essence a bunch of nation-states as opposed to a national, cohesive unit, could it be that this bilateral agreement really is an attempt to force an industrial policy? Could this be the tool by which we develop a national consensus? I totally agree, and I am sure most of the members of this committee do, that it seems ludicrous to say we want a bilateral agreement with the United States when we cannot put our own house in order. Could this be the basis of that housekeeping?

Dr. Beigie: I am not in contact with the Ottawa people at all; so I would not want to read--

Mr. Ferraro: Logically, never mind politically.

Dr. Beigie: Logically--I think I understand the Ontario government's position on this--while I share the view that we must get more of a common market within Canada, I simply do not see how we will get it without a force. There has to be a mixture of confidence and a certain amount of fear that if we do not get on with it, we will get burned. My own judgement, whether I am right or wrong--and this is a matter of judgement--is that this country need not get burned. I think we will respond positively.

In that context, let me make one point very quickly. One of the fundamental issues in the debate, which is going to be a tough one--I have not heard many people talk very much about it but I share this perspective--is that this nation is a massive country, but we have a small population base. Historically, we have had an economic policy which has tended to try to move jobs to people--not exclusively by any means--rather than moving people out of the outlying areas back into the core of the country, which is quite small. The difficulty we will have with the United States is that its philosophy tends to be directed in the area of moving the people to the jobs. I do not think we can adopt that policy. That will be one of the difficult questions.

If I were the federal government, I would make it very clear to the provinces that they should share the view that there has to be broad effective distribution of the economic gains in this country so there is not an even greater extent of depopulation than already exists in this country. We have a national industrial strategy of sorts. It is basically to try to buy off those regions of the country that are not effectively developing through our fiscal arrangements acts, for example. We cannot afford it any more.

If you want to know where my logic is, my reading is that I look at what the government revenue position is likely to be over time in this country if we do not make a major commitment to growth. Mr. Wilson has said he will be taking away $2 billion from the provinces and a host of other things. We have just seen the start of it; we are going to have big problems. They see this as a package. I know Mr. Mulroney puts the principal emphasis on Canada's ability to grow as the ideal way of correcting the budgetary deficit problems.

Mr. Ferraro: It appears to me that to make any plan or approach succeed, you must have greater co-operation among unions, management and government. You made no mention of that, unless I missed it, when you expounded on your seven core infrastructure points. I use the analogy of Japan as a perfect example of that. If you did not include that as one of the seven core infrastructures, why did you not?

Dr. Beigie: Labour?

Mr. Ferraro: Yes.

Dr. Beigie: I should have mentioned this in my complementary policy area. Just as we have to develop something on which the provinces and the federal government can work together, we have to set a goal which labour will be able to participate effectively to help achieve. I have argued--I may be naïve about this--that I respect labour very much. It has an absolutely critical role to play in any effective democracy. The difficulty I have is that, as I have heard it, the labour position on the freer trade issue seems to be no. Maybe it should be no, but I want to see what is going to come down the road first. I would say to labour: "If you are not willing to participate effectively and to make the same demands on management that it makes on you, we are not going to achieve this. It has to be a two-way street."

It worries me more than anything else that we will get forced into this. I have a very strong feeling, which really bothers me, that Canada goes toward freer trade when it feels it is in difficulty and when it feels good, and Ontario should feel good right now; we are doing very well in this province, it probably says: "We do not need to do that. There are too many things we would lose." The rest of the country does not feel quite that way.

My reading is that we may get forced into it. Quite frankly, if the United States really wanted to put us through the wringer, it could. Then the government would be forced into it and would come to the people and say, "We have absolutely no choice, there is nothing else we can do." We would get that kind of thing forced on us and, if we do not carefully build what is needed for management, labour and government relationships, we are going to get badly burned.

Mr. Ferraro: Labour is certainly a viable entity and there is above-average intelligence among the leaders in many cases.

Mr. Chairman: There are exceptions.

Mr. Ferraro: There are exceptions, of course. I do not agree with a lot of labour leaders. Having said all that, should they not realize the scenario you indicated, that if we do not talk, for crying out loud--

Dr. Beigie: My colleague has been very quiet. He almost always has something useful to say.

Mr. Stewart: One of the key elements in this is that labour adjustment policies have not been adequately addressed and a great deal of concern has been voiced about the unemployment pay to fishermen on the east coast, for instance, and the competitive advantage yielded to production in that area. It is a legitimate concern and one in which the incentives for these core sectors or towards a free trade agreement must encompass an effective labour adjustment program because there will be significant dislocation. The aspects of retraining, which Dr. Beigie touched on twice, have also received insufficient focus.

Mr. Ferraro: What does "insufficient focus" mean? Does it mean labour has not accepted it?

Mr. Stewart: No.

Dr. Beigie: What about government?

Mr. Stewart: Government, business, economists and others, the ones focusing on these areas, have not had that much of a stage in this debate.

The other side which should be stressed is how much of it is a status quo approach to employment, those who have jobs being protected, as opposed to a dynamic side which is longer-term growth which generates the jobs and gets people closer to my age group, many of whom have not even experienced significant long-term employment. That side of the issue which comes into the debate's periphery also has not been addressed. Therefore, labour has some realistic concerns which may not be adequately expressed in the debate as we hear it, but it tends to focus on existing jobs rather than future jobs that will be created by this process.

Dr. Beigie: Personally, I agree with you totally. There are very intelligent labour leaders--

Mr. Ferraro: Most of them.

Dr. Beigie: Do you want to talk about intelligence in management?

Mr. Ferraro: Yes.

Dr. Beigie: Or in government? I will leave that one alone.

The fact of the matter is, on the basis of what has been presented to them today, their intelligence says to them, "We have to defend what we think is going to be at serious risk, namely, the jobs of our members."

Mr. Ferraro: Is that intelligence?

Dr. Beigie: I think it is intelligence. They are basically saying, "For crying out loud, in the absence of a clear statement of what we are going after, federal government, we are going to dig in our feet because everybody else is doing it on their side." They are basically saying, "Look, we have a problem and we want to ensure that we are not going to be left out on this."

Mr. Stewart: There are one or two other aspects related to this: The degree to which labour shares in the gains the greater efficiency creates, and the lack of profit-sharing, gain-sharing or whatever types of arrangements there might be on a wide-spread basis means that quite often they do not have the incentives. In this respect, it is very realistic to participate in wrenching changes with the potential for significant job dislocation.

Until you have the incentives in place for labour to participate, whether or not it is sharing in the profits that come from this, job retraining or some other form of location assistance, it is going to drag its feet because it is asking, "Are we better off by participating in this process when they are not focusing enough on us, or are we better off stonewalling?" So far, I have had difficulty criticizing stonewalling because these other aspects have not come in. If the other aspects come into the debate, as they should to the full extent, I think you will see labour change its tune.

Mr. Ferraro: Personally, I think unions in general would be scared to death of profit-sharing plans.

3:10 p.m.

Mr. Stewart: As one anecdote, if you look at what is happening in the automotive parts manufacturing area, there is a tremendous crossover in the types of jobs being performed. There was a terrible shake-out with widespread employment losses in the early 1980s. They have switched. I am not sure about the figures here but somewhere between 40 and 60 per cent of the jobs now being performed are different from what was the case five years ago. They are employing more people than was the case five years ago. That is because of the ability to adjust and adapt to: (a) global markets; (b) the cost advantages we have in this country under the automotive pact; and (c) the introduction of technology and other management practices which lead to productivity gains.

They said, "We will give you job security to a large extent if you will participate in this type of changeover." That focus and that emphasis will lead to a lot more willingness to embrace change than what we are talking about now.

Dr. Beigie: Very quickly, that is the secret of relations between Japanese management and labour. In Japan, it becomes a responsibility of management to ensure that workers are not laid off before age 55. That creates a sense of security that does not exist in many countries. There are companies where this happens. Magna International Inc. is to me an absolutely perfect example of a really solid starting point from which you can possibly make some progress in this. Not Peoples Express Airlines, I must say.

Mr. Ferraro: You made a point of saying that you found it difficult, if not impossible, to accept the statements that this issue requires more studies. I recall one other economist who made the same statement when he was here. By and large, however, if my recollection is correct, most of the people we talked to as a committee felt that we needed more studies.

Dr. Beigie: Most of them are looking for consulting contracts.

[Laughter]

Dr. Beigie: I am sorry, but I mean that. I know the games, and I do not mean that in a pejorative sense. I know what research involves. It is expensive. It gives you nice contract fees. The fact of the matter is that you can turn loose 15 different economists on any specific issue you may wish to raise about this and you will get at least 16 different answers. That is the problem with it. You can take these models and depending on the framework--

Mr. Callahan: Sounds similar to lawyers.

Dr. Beigie: There are a lot of similarities. We know the game; we know the incentive system. One study done by a skilful economist would have its effectiveness defeated by the criticisms of another skilful economist who would then do his own study. It is a nonending sequence. Study is often a defence mechanism for doing nothing. I am afraid there is a certain element of that.

I am not saying there is nothing worth studying. I give you the prime example of the appropriate exchange rate mechanism during the transition period. I do not know of any serious studies that have been done on that. I kept asking the Quebec government of the day where it was basing its judgement of the policy conclusion that, if Quebec were to separate, it should keep the Canadian dollar as its currency. It did not have a study. The government wanted to convince the public that it would be sensitive to the fact that if

Quebec had its own currency, massive amounts of Canadian dollars would leave Quebec once again as in the late 1960s and early 1970s.

There are important things to analyse, but it is a bit of a con, a sting in effect, for an economist to come to you and say, "I can prove to you exactly what is going to happen." You cannot. I cannot tell you how the Canadian businessman will react to the opportunities. I cannot tell you how labour will react. If they react one way, we have the potential to be good-sized winners. If they react another way, we could effectively lose the distinctiveness of this country. In effect, we would be a branch-plant country.

Mr. Ferraro: The proof is in the pudding.

Dr. Beigie: That is darned right. The proof is in the political things that are worked out. We are getting quite a bunch of our negotiators over in Reisman's office. I hope they are studying these practical issues rather than trying to figure out at the five-digit industry level who is going to win and by how much. Do not put any stock in the answers.

Mr. Stewart: I have two other points related to that. First, a lot of the studies you are getting now are not significant advances over what was done in 1967 and 1975 by the Wonnacotts. Their work has formed the intellectual basis for the pro-free trade advocacy for quite a long time, other than certain models and econometric work that have been updated. A more important element is that there is a lot of tremendous research around the world. A synthesis of it would do just as well as a new study of the case here. A case in point is some of the work being done in Japan on multinational investment strategies by Japanese companies.

The other aspect is since coming to Bay Street, you really get to learn how much variety you have within an industry or firm. The industry-level study maps tremendous varieties in firm capabilities. In a number of these so-called losing industries we are going to have firms that do very well. It is difficult to model how a firm will adjust when it knows it has to cut labour costs or management compensation or move towards more innovative technology. No model or study can capture that.

Dr. Beigie: Excuse me one short minute. Another thing where it is true, there is almost no study, is a serious analysis of the implication of freer trade for services. That is particularly important for Ontario.

Good solid research requires years of intellectual capital building. People have tended to dismiss services. It is hard, so they do not deal with them. It is so much easier to deal with goods because you can make very simple assumptions. I think services require serious analysis. I believe there is no way that we can go into this agreement and leave services totally out, or the Americans are not going to be interested. That is an area where I share the view of services types.

Agriculture is another example. Although there have been a lot of studies of it, the real question is how our agricultural system fits into the world scene.

Mr. Stewart: By the way, the Fraser Institute is doing some work on services. The work is in a very preliminary stage, but the institute is the first to do a major study in this area.

Mr. Cordiano: This whole question of services leads into a--

Interjection.

Mr. Cordiano: I just thought I would go on where you left off.

Dr. Beigie: Strike while the iron is hot.

Mr. Cordiano: It brings up another point that leads to the whole question of what will happen to manufacturing over the next decade or so and what is happening in the United States. I brought this up this morning and I want to bring it up again because it is something we will have to be concerned about over the next decade. That is the whole question of what is happening to corporations in the United States, the notion of a hollow corporation. Corporations are going offshore and manufacturing in the Third World, etc. How will we be able to capitalize on economies of scale if that whole trend continues? Some of our multinationals may go that route.

Mr. Stewart: There are different aspects to this. First of all, with the advances in technology you have two effects on economies of scale. You have certain industries that are globalized; that is, you need global scale distribution, production networks and those types of things. On the other hand, you have a tremendous scaling down in areas such as steel, with the mini-mills, and others where you have ties to a rapidly changing market and significant production advantages, both in cost and quality, to smaller-scale operations. You really have to be careful in lumping together manufacturing, because there are two tendencies there.

3:20 p.m.

The second aspect related to this is that a lot of people are focusing on the tremendous flow of manufacturing to the newly industrialized countries, whether they are in the Pacific Rim, South America or elsewhere, but in an increasing number of cases, there is coincident or lagging analysis. We are looking backwards and walking forward. A small but significant number of US companies have pulled back from their overseas operations because of quality problems, transportation difficulties and operational control things and re-established in the United States or elsewhere.

Japanese firms are pulling out of many of these areas and re-establishing in Europe, at home or in the United States. They are cutting their labour content to more than offset the previous wage advantage they had elsewhere. What you have is this trend. Maybe some US firms are still following that direction; a lot of them are. Some are coming back, but the Japanese, who are at the cutting edge of multinational management and production right now, are moving out.

In choosing locations they are looking for market access. There are three markets they want into on a global basis for their leading-edge technologies and advanced manufacturing products, because they are being hit by South Korea, the Chinese and others in textiles just as we are. They are looking at Europe, home and the United States.

Because they have access to the United States and the cost advantage, the other area in Canada where they have been heavily investing is the automotive sector. Contrast that with the amount of investment you have seen in other Canadian sectors, even though we now have a cost advantage. You want to be careful in these types of analyses because there are about three or four trends on a worldwide basis, and the market access backs up with freer trade advantages.

Mr. Cordiano: If you carry the economies-of-scale argument to its extreme--and I do not say that the product's life cycle is the answer to everything. I have checked carefully with Robert Reich, the Harvard professor who has written about the next American frontier, and he has talked quite a bit about the Canadian content. On the basis of Reich's analysis I am convinced that what you have facing the worker of the future in the economies-of-scale industries is--you will all remember the Modern Times film with Charlie Chaplin going like this all day. That is not where the high-paying jobs are going to be in the future in North America.

What we are going to have to do is take advantage of people's ability to adapt. For example, in education I have long been of the opinion that we specialize too much. We are going to have to make education a lifetime process. The people who will do well are those who are going to be able to move relatively quickly in a specialized way. You see, big-scale operations are going to go to, in effect--and I do not mean this in a derogatory fashion--a more drone-like person.

The difficulty is that robotics is now substituting for highly paid labour. I do not want Canadian workers and the kids I teach to compete with robots on the basis of how low a price they will charge for their labour. The manufacturing industry of the future in North America and in the industrialized world generally is going to put a lot of emphasis on how we specialize production, on being innovative and on being relatively small. Again, I used the example of Magna International Inc., but there are a number of other industries where companies are moving in the same direction. What we will have is an increase in pseudo-service- or quasi-service-oriented jobs for the future.

Mr. Stewart: To give you some estimates, right now manufacturing employment as a percentage of the US work force is projected to go down by 25 per cent to 50 per cent because of the productivity increases, without the employment gains and the rate of growth in services. It is not going to be the job generator.

Mr. Cordiano: Certainly flexible manufacturing systems or computer data manufacturing systems are going to play a large role in that in terms of their specialized manufacturing capabilities.

Mr. Stewart: That is right. The United States is well into its fourth year of recovery, and manufacturing employment is below where it was prior to the recession.

Mr. Callahan: First, Dr. Beigie, just as a matter of interest, where are you from originally?

Dr. Beigie: I am from Cleveland myself, but my ancestors are from Alsace. That is where that stupid name comes from.

Mr. Callahan: That is interesting, because I have a somewhat common background in a sense. I lived in the United States for some time. I guess that is where many of my questions are going to come from, because I work from a state of paranoia out.

Mr. Cordiano: Did they kick you out?

Mr. Callahan: No, I came here by choice. I enjoy this country. I agree with you; we have a unique country and population. One of those unique

points--and perhaps it is getting a little better over the years--is that Canadians have a tendency to put their money into the safest investment. Without sounding as though I am Tory-bashing, as I suspect a few earlier speakers were, I would bash any federal government that, with the large majority it had, did not try to turn this around by taking some of the incentive out of putting money in the bank as opposed to investing in equities.

You can get the same interest rate on a guaranteed investment certificate that you can get on an investment in shares or in a company's venture capital. It makes it very difficult, if not impossible, for those entrepreneurs to get the money from any place other than a bank. That is my first concern.

My second concern is that you have said that a lot of Canadian companies have left and gone to the United States. Surely part of that is the situation I have just addressed. Surely another part of it is the question of the absolutely ridiculous and horrendous taxation system we have in this country. It does not resemble in any way, shape or form the taxation process that is available in the United States. It is more of a deterrent than a stimulus to entrepreneurship and is probably even exacerbated most recently by the five-year capital gain moratorium, which was great except that it allowed you to sell things in the United States as well and did not do one damn thing for this country except perhaps promote an outflow of cash.

My final concern is that you have the Prime Minister of Canada telling the provinces he is not going to give them any say in this whole process. You said before that the discussions may be meaningless. I am a newcomer and I am just visiting on this committee, but I read a very excellent statement by a Professor Richard Simeon. I hope Mr. Mulroney has read that brief, because he will come to recognize the fact that he cannot do this on his own; that because of the rather interesting division of powers in Canada, he needs all the players on stream. I think he has taken the wrong approach by standing up on the stage with Mr. Reagan and singing Irish songs, then following it up with an affront to the provinces by saying they have no place in the process.

Unless those matters are addressed, I really cannot see how you can expect to enter into any meaningful negotiations with the United States, even if you have the hardest and toughest negotiators, because you are immediately starting from a position of weakness in that the rules south of the border are much different from the rules north of the border. That is where I am coming from. There are people in this province who have immediately identified that it would be very dangerous to jump into something, and I am sure we recognize those factors.

If the federal government is so keen on our moving along with this, it had better address those problems and it had better address them while it has that strong majority, because its time may be running out to address them, particularly the banking issue. Those are the concerns I have.

Again, I speak from a position of paranoia. I really wonder whether the United States does not see a more significant issue involved in this whole process than just free trade, if it is not an opportunity to prop up its dwindling resources, the most specific one being water. I do not know how the water thing came up. I do not know whether Mr. Reisman wanted to sell it to the US or the US wanted to buy it. It could become a commodity more valuable than oil in the future, and the US is going to need it.

3:30 p.m.

As I say, I tend to approach it from a standpoint of paranoia because I do not feel we are in a bargaining position yet where the rules this side are capable of dealing with the rules that side. I also wonder whether there is not a hidden agenda, and that bothers me. Have you ever thought about that?

Dr. Beigie: I have thought about all those issues and have covered about four or five, and I hope I do not miss them. If I do, you tell me and I will--

Mr. Ferraro: I counted 10 or 20.

Dr. Beigie: I only have one hand that I count on.

First, on the provincial: Jason and I wrote to the Ontario Economic Council last year, and I still believe it is wrong and a misinterpretation of the Constitution of Canada as it exists today to assume that the provinces do not have a significant power--in effect a veto power--on a number of issues that are important to the United States in these negotiations. To assume otherwise is just plain wrong. Provincial procurement policy is a simple example.

In my understanding, if the Senate in the United States agrees to something and makes a treaty on it, the states have to go along. In my understanding of constitutional law, that is not the case in this country. That is clear.

On the issue of water, I suspect that if Simon had known he was going to play this role, he would never have got into it. It did not matter for Simon whether it was Canada selling or the United-States buying. He was part of the consultants to the brokerage business and he was going to get paid on the basis of the success or failure although, knowing Simon, I am sure he took his share off the top before anything happened.

What you have indirectly raised is the question of what is in it for the United States. Maybe it is because of my early Yankee years, and maybe I am being very naïve about this, but I think there is a certain naïveté about the Americans. I am frankly joking--and I stress that it is joking--when people get really agitated with me on the public platform and ask, "What is in it for the United States?" and I say, "They want our women and our water."

The women I can understand, but, for crying out loud, there is an opportunity in the United States to desalinate the water if there is a problem. The water of the oceans is closer to many of the areas where there are true water shortages than the water that is flowing up north, and bringing significant amounts of water to meet declining US supplies strikes me as a very questionable proposition because of the cost. Hidden agendas are hidden. Who knows? I do not know.

All of us in the business have some trouble with Mr. Reagan's priorities, but one of the reasons he has been such a successful politician is that he comes across as a pretty honest man. He is upfront. What you see is what you get. Some people say, "Is that all there is?" but that is what you come down to.

If there is a hidden agenda, it would have to be revealed before the end of the negotiations, and I insist that we still have the opportunity as a sovereign nation to walk away.

Mr. Callahan: Sometimes that is very frightening, particularly in recent events with Mr. Reagan with his indication that he is going to go into Libya and almost precipitate a war.

I have heard stories--and it is important because this is the perception the Canadian public has--that during the Front de libération du Québec crisis US troops were mounted on the border of the New England states about to come in and help us out if we did not quell the insurrection. You say that we should get on with the process. I think the effect of this process is to clear up a lot of the misconceptions.

I have found that on any of these legislative committees you get a significant amount of information. Much of it is the same, but you do glean something new from each presentation. This is such a significant approach to be taken; I feel it is so important, that it has a definite impact on our sovereignty. I agree with that and think it is extremely important. We cannot turn the clock back if it does not work. That is why I am concerned.

To move on to another item, if I may, you talked about the dollar. I was interested when you said that the auto pact would not be in trouble as long as the dollar stayed where it was. Does the government, any government, have the political will to take the heat of its staying at 69 cents or of pegging it? That whole issue was debated years ago with Gerald Bouey, the Bank of Canada and all the rest of it. If it does not have the political will to do it, and you negotiate that, you have in effect--and some of our other briefs have told us this--lost a tremendous number of jobs for this province in the auto industry.

That gives me, my friends in the third party and all of us, for that matter, great concern that those jobs will be gone. Your pegging of the dollar is very important, but do governments have the political will to do it with the pressures on us to travel to the south, since we have no south of our own? We probably should have adopted those two islands; I cannot remember what they were, but there was a resolution at one time that we take them over.

Mr. Barlow: The Turks and Caicos Islands.

Mr. Callahan: We would have had our own vacation spot, and maybe our balance of payments would have been a little better.

Mr. Chairman: Would you get to your questions?

Mr. Callahan: Okay. I asked this of one of the witnesses this morning. In the event that we negotiate this type of agreement and enter into it with the United States totally and the US decides to deal with, say, Japan or one of the Pacific Rim countries by erecting very significant tariff barriers, does that not cut us off as a trading partner? Could they not cut us off from trading with them? We do not want to have just the United States to trade with; we want to have a free hand to trade with all those other nations.

Dr. Beigie: It is as much a political question as an economic question. The simple answer I can give you is that I see no reason that we have to or should agree to enter into an economic union. There is no problem in my view. I assume that this would be insisted upon as the initial position by Canada; that we would form, in effect, a free trade area. That means we would reduce or eliminate trade barriers in certain sectors between the two countries but that we would essentially keep the same economic policies vis-à-vis the rest of the world that we have today.

Mr. Callahan: You are saying that we would have a clause in there that would give us the opportunity to deal with other countries. I am thinking, though, in the other way: that as a result of our economic union, or whatever you want to call it, actions by one party south of us might interfere with the opportunities we would have to deal with other countries we might have options to deal with. The US might just look at birds of a feather flocking together and put significant tariffs on our dealings with Japan. Do you see that as a problem?

Dr. Beigie: I do not see it in the general context you are talking about. There is nothing we would do, and I do not think there is anything we should do, that would move us in violation of the General Agreement on Tariffs and Trade. Therefore, we would have the GATT protections for our trade with the rest of the world.

The question that is raised, and I have heard different interpretations of it--and quite frankly, this is where I think the west would be more concerned than central Canada, because it has a bigger market in Asia than we do here in Ontario--I anticipated that the Japanese might be concerned about the Americans insisting that Canada gang up with them on the Japanese. The Japanese would (inaudible) or something like that.

3:40 p.m.

My simple answer is that I can create an infinite number of scenarios, as you can. The question, though, is whether we have a legitimate protection against irresponsible behaviour of that type. You have to negotiate within a structure that economists and political scientists call a free trade area rather than within a customs union or a common market. I frankly have not seen anybody suggest that we were going to have to adopt the same policies as the United States with respect to tariffs, nontariff barriers and so on as a condition for doing something with the United States. The only thing the Americans would insist on, just as they did on the auto pact, is that, before it enters the United States from Canada duty-free, there must be a 50 per cent North American content in those goods.

If, as is now rumoured, the Japanese and Koreans are setting up auto assembly plants here, and all they are going to do is take parts imported from Korea or Japan, put on some nuts and there is your car, it it argued it would not achieve the 50 per cent content. Therefore, they would not be able to get into the United States duty-free under the auto pact. It is those kinds of things that will be negotiated.

Your specific question was whether I am concerned about it. I am concerned about an incredible number of things, but I do not walk away from the table before I even find out what the Americans are going to ask of us and what our government is prepared to give.

Mr. Lane: I want to thank you for your very interesting remarks. You certainly raised a number of thoughts. Several of my colleagues have asked questions I was concerned about so I will be brief.

You mentioned the exceptionally slow growth in Canada over a number of years. Is that because we are very timid gamblers, so to speak? Are we more timid than our friends down south?

Dr. Beigie: No, I do not think so. We did very well until 1973. We did not do as well as the Japanese in that period, but they were catching up.

We did very well in comparison to the United States. The gap between our living standards and those of the United States in the post-war period was narrowing, not widening.

In the 1973-83 period the whole world, every single country including Japan, had a significant reduction in its productivity advance. The difference is that, when we approached our government expenditure programs in the late 1960s and early 1970s, we put into place relatively long-term policies out of a sense, I believe, that Mr. Trudeau felt we had to do that and we were positioning ourselves to be a country that could afford to be relatively generous in the humanitarian sense.

I do not want to overdo this, but essentially what the government said was: "The money is coming in. If we keep up the same kind of performance we had before, we can spend it to increase the general wellbeing of the disadvantaged as well as the advantaged." In effect, it was a distributional question and I have no fundamental objection to that as a political choice.

However, we ran into a situation where all countries worldwide went down in their growth performance for reasons that detailed studies, as an example of studies--ask economists to explain why that happened. They can explain clearly at most a third of the decline in the productivity in Canada or around the world. They just throw up their hands and say, "Our econometric studies put that into a residual somewhere." They cannot explain the residual. In effect, what happened is that we shared the worldwide slowdown.

We are now, by the way, in 1984-85, doing very well in coming back towards it, although we have an intolerably high unemployment rate, in my judgement. The question is, to put it in a very specific, political-objectives framework, how are we going to ensure it? I do not think Canadian people are going to accept passively a deterioration of our income standards relative to US income standards. I am not forecasting that is definitely going to happen, but I think there is a chance it will. Thinking of the future, we have to be prepared to do something about it.

Mr. Lane: I believe you mentioned that we should have a limited increase in foreign ownership in this country. We have a very large country and a fairly high rate of unemployment. We need money to enhance the employment situation. Would there be some benefit in trying a joint venture with foreign ownership so we could have a piece of the action?

Dr. Beigie: I want to make it clear that I am not against foreign ownership in the specific, but I am concerned that the degree to which foreign ownership exists in a country has passed the level of political concern. You can have changes in governments but the people generally, in good times especially, say that is a priority issue with which we must eventually deal.

I am not saying we should say no to foreign investment. If we want into the United States, we have to let it in here. Our industry is going through this in spades, as is the banking industry. Eventually, we are going to have to open this up, but we must have a transition. It is correct for the general public to be concerned. We need some time to take advantage of our innate skills because there is a head-start problem here. Many of the other countries have a head start in comparison with Canada.

I do not want to give you the impression that I think investment in Canada is wrong. I agree with you that there are many parts of this country that, unfortunately, do not care about the flag that the investment has on it.

The fact of the matter is they want jobs and do not care where the capital comes from. There is an issue there.

To put that in perspective, take a look at what the United States has done at a congressional level over the years when there was a threat of five per cent of foreign ownership in its industry. They went crazy. We are at 35 per cent or 40 per cent, and there is 100 per cent foreign ownership in many of our industries. For the Americans to say it is impossible for us to express in public policy a concern about the degree to which we have sold ourselves and our future for the purpose of preserving a relatively inefficient economy--we want to do something about it. After the transition during which we do something about, we are going to be open because we feel we can compete effectively. That is the issue.

Mr. Lane: You mentioned that some say we should not be talking of free trade with the United States until we have our own house in order, until the provinces are together in Canada. In my short lifetime, which is about 100 years, we have always had at least three sections in Canada: western Canada, central Canada and eastern Canada. Are you saying this possible debate would be the instrument that would bring a greater "I am a Canadian" sort of thing as opposed to what has happened in the past?

Dr. Beigie: Something has to do it some time.

Mr. Lane: I hope so.

Dr. Beigie: One of the gentlemen who has left asked a question about logic. To be quite honest, I think the Americans want us to do this. They are afraid some parts of Canada are going to turn into the Puerto Rico of the north if we are not careful here. They would enjoy our getting some policies sorted around on this. The only problem is that we cannot get very far at a political level by saying the answer is to move everybody from Cape Breton to Toronto. That is not the answer. We are going to have to get from them flexibility in the way we choose to address that problem. They are saying, "If it is handouts and you are subsidizing these guys to ship the products down to the United States and not to Canada, you have a problem."

The Acting Chairman (Mr. Cordiano): Mr. McFadden, before you go on, I would like to ask members whether anyone else would like to speak. I have Mr. Morin-Strom on the list. Would anyone else like to be included? Okay.

Mr. McFadden: Dr. Beigie, I want to congratulate you on your remarks. Going back over the presentations of the witnesses we have had over the months, this submission has covered the most ground not only in the free trade issue, but also in discussing a whole development strategy. It certainly contributes to our thinking on the issue.

You made reference to the fact that we could not approach this issue in the future development of our country using just the free market model. Over the weekend I was reading a book on the history of the Canadian Pacific Railway. One of the things that struck me was that Canada was essentially a creation, initially of political planning. Gradually the CPR became an instrument of economic planning. It defied the natural flow of things at that time. It would have made more sense to have feeder lines from the west down to the Union Pacific or wherever. Instead we used the CPR and later the Grand Trunk and the Northern to pull the country together from east to west.

3:50 p.m.

Unfortunately, the logic today is that railroads no longer are the prime engines of growth or of communication. We now have telecommunications, air travel and everything else that does not respect north, south, east or west. It is not only binational, it is international, so we are confronted with a whole new situation. I have a feeling that Canadians in general, and the governments in particular, have not realized the change that has taken place and the options that change presents to us. I view in that context a comment you and one of the other members made here today. I cannot remember who it was. You said the advantage of the whole issue has been to start us thinking about where Canada is and the kind of strategy we are going to have in the future, and that is very desirable.

You set out some very interesting options and I want to zero in on two or three of them. One is the foreign ownership question. I have had a chance, from a lawyer's as opposed to an economist's point of view, to deal both inside and outside Canada with an investment coming back and forth. The question that a lot of countries including Canada have had to come to grips with is what you are controlling. We have the whole area of new investment and the size of that investment; we have takeovers; and we have controversy about changes of ownership abroad of companies, which have an indirect effect in Canada even though the corporate structure is the same.

Could you give us a little more information about the kind of regulation of foreign ownership you would put into place? I am not quite sure if I took your point wrong. Are you concerned with takeovers, or are you concerned about the whole panorama from the small business investment right through to the large acquisition?

Dr. Beigie: Actually, it goes the whole schmear. I am concerned about the takeover environment specifically in Canada, as well as outside. You did not follow up on one of the things you asked about taxation policy. I am probably going to lose any support I started off with on this question. I would take away almost every subsidy given to business, do away with corporate income tax and tax the shareholder, not the corporation. That is how I would handle the taxation of corporate income, for what that is worth.

Mr. Callahan: Would that stimulate--I am sorry.

Dr. Beigie: It would stimulate, and it would be so different from the United States that we could really do some super things.

Mr. Callahan: You would have fewer people putting money in shares under those circumstances.

Dr. Beigie: That is correct. I think so. In my system, I would not allow companies to escape taxation until they pay the dividends, if all they do is take the money and become bigger through acquisitions and mergers. They have to create something new in that list of capital things I am talking about. What worries me more than anything else on your specific question goes to the earlier end.

The history in Canada, as I am sure you well know, is that you develop something that is new, and we have developed a lot that is new in this country. On a per capita basis, we have done quite well in new ideas. The trouble is we develop them to a certain point and then give up on Canada and sell them off.

My concern is that unless we give Canada a bit of a kick in the pants on this, which would require some screening mechanism--I am not setting any specific numbers. I do not want to set rigidity as the approach. Especially during the transition there should be some kind of screening process, but I would use the same type of screening process on the takeover of Canadian companies by Canadians.

I would rule it out and say: "Let us give independent decision-makers an opportunity to develop. Let us not give them the easy out." That is part of the Canadian institutional, attitudinal structure of, "As soon as you develop anything you can sell, sell it; do not develop it." Often what has happened is that the highest bidders have been people other than Canadians. That is essentially where I stand there.

Mr. McFadden: Would you give any special arrangement in this area for joint ventures? One of the things that has struck me as being very useful for Canadians is in a situation where a Canadian is developing a process and has trouble with marketing and distribution. From personal experience, I can give a lot of examples where Canadians have developed a product line.

You can work your way through manufacturing, the recording industry and even the film industry and so on, where Canadians have developed the concept, which is as good as anybody has ever had, but cannot get it to market. They put all their money in on the front end and then have no expertise or anything. In companies where it can be usefully done and where you can consider some way to encourage this, the person from abroad can be very helpful in bringing in the resources and the knowhow to get it out to market.

There is some merit in encouraging that form of joint venture, because otherwise--yesterday someone was talking about institutionalized pygmies or something--you could have a lot of groups that are very inventive but cannot go anywhere with their inventiveness. They cannot even market in Canada effectively, let alone get it out into the world. The model would have to encourage a lot of joint arrangements.

Dr. Beigie: Let me extend that a bit. In effect, a pure product mandate would be almost exactly that. You use the multinational network for marketing, but you develop the research and development and those kinds of things within the domestic economy for a specialized group.

Let me tell you something for your history book. The first speech I ever heard in Canada was in 1966 when I went to teach at the University of Western Ontario. Mark Inman was there and he welcomed all the new faculty. He said: "Welcome to Canada. Do not anticipate that the highest achievement in Canadian academics is a chair. In this country, we have chesterfields." He was essentially saying that the country could not afford to specialize enough so that a professor would only deal in one area. He used himself as an example. He taught courses in political science, geography and economics. He said, "Your success is achieved when you have a chesterfield named in your honour."

Mr. McFadden: That is unfortunate, because it also means you can put your feet up and doze away.

Dr. Beigie: On that point, specialization means that Canada would have the need to focus its energy. When the students come back to talk to me at the business schools where I teach, McGill University and the University of Toronto, they tell me they are finding they are very much out of touch with the existing management of many of our Canadian companies, because we have trained these MBA students to do relatively specific jobs.

They find that, in general, the successful managers of Canadian companies over time have been forced to be jacks of all trades. One thing that has suffered, as you well pointed out, is the marketing skill. They say, "You do not go to Japan and learn the language." We had this rather well-appointed cocoon and we could always send some down to the United States.

Mr. McFadden: May I raise one more matter? I know the hour is marching on. I found it interesting that you included competition policy, which is a matter that concerns me, and I know it concerns a lot of people. The level of corporate concentration of ownership in this country is getting to be alarming. A month does not pass that we do not have a major merger taking place of one type or another which creates, in itself at least, no jobs except for lawyers and accountants.

Dr. Beigie: And investment dealers.

Mr. McFadden: Yes, there are the three. We have heard that.

Mr. Callahan: Three out of four is not bad.

4 p.m.

Mr. McFadden: You can argue that the money paid out to make the acquisition is then ploughed in somewhere else. I know that argument can be made, but it seems to me that what is happening is that management in Canada at that level, with the large sums of investment money, is orienting its attention constantly towards acquisition as opposed to creating new things, finding new technologies and investing in education, research and development to bring new products to market and get them out there. These companies may have the resources to do the marketing; the trouble is that they are totally tied up in the stock market trying to acquire somebody else.

For example, one of the most alarming areas, the communications sector, has been protected by government. You do not even need all the fingers of one hand to name the owners of the English-language dailies, and that is unhealthy. The same thing has happened in the television industry and in radio. More and more, the sector is coming into the hands of a very small number of people, and they have all been hiding; it has been very handy to hide behind government regulations. Canadian ownership restrictions in communications have meant unhealthy concentrations of ownership.

Without a companion competition policy, this is what we have wound up with. It has had several consequences, one of which is that it has narrowed the debate in Canada because the numbers and differences of points of view have been more limited than they should be. Another is that it has hurt the cultural sector. Even though we have these concentrations of ownership that supposedly should lead towards big investments in cultural activities, the reverse is the case. Outside of sports and news, virtually no money is put into anything.

I have some real questions. The policy you have set out has some attraction for me, and it would be quite consistent with the traditions in this country. If we follow it without a competition policy, however, all we will see is increased concentration of ownership, to the point where probably five families would run everything in this country, and that would be about it.

Dr. Beigie: I have a few relevant comments; I am not sure they are too integrated, but I will make them. One of the best pieces of writing of an

analytical sort I have ever seen is a chapter on paper entrepreneurship in a book by Robert Reich, The Next American Frontier. It makes exactly the point you do, that some of our best and brightest are trying to figure out a way to beat the financial game. That means--and you do not have an infinite supply of the best and brightest--people who might operate more effectively in the national interest are, through taxation policies, competition policies and everything else, diverted into playing paper games.

One of the problems of Canadian antitrust or competition policy--anticombines--is that most of the people in this area were educated in the US. Industrial organization happened to be my principal graduate school area. In the US they teach the students time in, time out, and there is very little difference of opinion among the different schools on this, that they should go very tough on horizontal mergers and be very relaxed about conglomerate mergers.

In my judgement, Canada as a nation in its own long-term interest should be at this stage of its development much less restrictive of efficiency-enhancing horizontal mergers where there is a clear gain to the productivity of the country, and much more tough on large-scale conglomerate mergers where there is no clear demonstration of the efficiency advantages of it. In other words, I turn the American approach to competition policy around in the Canadian context. The reason for that is exactly the point you make.

One of the few things I remember from my early days in education is the principle of the Jeffersonian ideal. A democracy functions best when you have more rather than when you have fewer independent decision-makers. My concern is that more and more of us in one way or another--many of us in the private sector do not even know that--are really being held accountable to a smaller number of people for what is or is not in the corporate interest. That is an issue.

As we move towards freer trade, the real issue on competition policy is ensuring that our companies within specific industries can gain the size necessary to achieve a fair chance. To me, that is what a level playing field is for Canada; that our companies at least have a chance to succeed and prosper in specific industry areas.

<u>Mr. Callahan</u>: Without being gobbled up as well.

<u>Dr. Beigie</u>: That has been the trouble in the evolution of many Canadian firms over time. They reach this critical point, whether it is the financial sector and how much money is given to developmental capital and operating capital or whatever. You have all heard this problem about banks and what they are supplying. That is critical.

The first job I was offered in Canada, which I did not take, was to work for the combines investigation branch on the vertical relationship between Northern Telecom Canada Ltd. and Bell Canada. I had the sense then, and I have it even now, that to apply what I learned at the Massachusetts Institute of Technology to the Canadian context was not correct. I still believe that. We need big companies, but we also need the competition that comes from excess by the consumer to a broad range of choice to ensure that bigness is not abused.

<u>Mr. Morin-Strom</u>: I would like to follow up on this issue of corporate concentration, which I sense is a growing issue with the public, particularly as we have seen so many headlines about major takeovers going on in the past few months. What do you suppose the government should be looking

at to make sure there are more decision-makers rather than fewer decision-makers in the future, and more independence in the business world in Canada?

Dr. Beigie: Let me say at the outset that this is one of the sections I still have to think through. I know it is on the list, but I am not at all confident that I know what makes sense to suggest. I do not like rigid rules in any case, but I do think there has to be the burden of proof. When there is a significant increase, as many of these mergers that have been going on in the past couple of years entail, the burden of proof rests on the part of those people proposing the merger, but there will be a significant economic benefit to the country as a whole as a result of these things.

Just because this merger activity or this acquisition increases the effective control by a small group of individuals over larger amounts of money is not, in my view, sufficient reason to allow this thing to go through. Adam Smith talked about market philosophy, and there are some very poignant phrases in Smith's works about what happens when there is too much of a concentration of power. He, and many of the Chicago school types, argued that, for the results of the free market philosophy to come into play, you have to have atomistic competition and lots of independent decision-makers.

We are a country that is too small to permit atomistic competition; we will go down the tubes. Quite literally, there will be too many. You will have ruinous competition. As we get bigger, we have to give much greater attention to this. Again, in a simple phrase, as I think through that portion of the exercise that we are trying to go through, I would say: "Look, do not rule anything out on the face of it, pure and simple. Rigid rules, de jure, are out, but at least have some pretty critical test of what you are trying to achieve and how you are going to test these proposed acquisitions as being or not being in the national interest."

Mr. Stewart: To follow up on that, the new competition bill in the House of Commons, the broad directions of which are ones that we generally support, recognizes that the presence of import competition is not something to stop domestic concentration for; it is the competition in the market. If it is a domestic market, you will get concentration in that sense. If it is a global market, you will look at the presence of import competition.

At the same time, it has lowered the threshold significantly and changed the definition of what they look at from a monopoly to a dominant firm. They have been fuzzy on how they defined this to give themselves some room to look at some of these areas. I cannot comment on the specifics of it, but the broad directions are steps that we would support.

4:10 p.m.

Mr. Morin-Strom: Do you think the government should be looking at options for creating a greater incentive to invest in hard new assets, some of the new investment-type things, as well as what you are suggesting, research and development, infrastructure and, obviously, plant and equipment? Rather than buying up other companies, it could put a new type of tax on a merger, a sales tax on a buyout or something along that line which would be a disincentive to that type of growth policy.

Dr. Beigie: We are again into an area where you have obviously thought through the political issue much more clearly than I have yet thought through the policy issue as an economist would see it. I am not against

removing artificial inducements to creating large-scale agglomerations of wealth. I would be very careful to ensure I did not have a regulatory taxation, a competition area policy system that artificially encouraged that kind of activity. That is what I am essentially saying. It may be that what I am doing is unbiasing the system, which would improve what is going on, rather than biasing it.

This was not asked for, but I want to make a statement. In the context of many of the people I know in the economics profession who share my views on the importance of growth to the Canadian economy, how the heck the $500,000 lifetime capital gains exemption is going to serve the Canadian interest is extremely questionable. Maybe it will be for only five years. There should have been some guidelines at least, and my principle is that the forgiveness of a tax is a tax expenditure.

To say that somebody can get a forgiveness of tax on wealth acquired by taking money outside this country to invest in condominiums around the world, rather than in Canada, does not make much sense to me. Furthermore, if you get capital gains without really improving the investment base for the future of this country, say through simple acquisition of power, then I have to ask what that is. It is a fair bit of money, $500,000.

Mr. Mancini: That is small change.

Dr. Beigie: They must be paying legislators more than they used to.

Mr. Morin-Strom: This follows up some of the other comments you made about the tax system being a problem generally.

Dr. Beigie: I am for growth. I am for as much as the private sector is going to do productively. I am not at all against sensible public participation in the development process and I realize that is the world you live in. You have political realities to live with in the various parties, but I have a hard time, as an economist, seeing a clear, logical case for sharp distinctions. I am not one who believes that a dollar spent by government is a dollar wasted, as some of the Chicago school types do.

Mr. Mancini: The $500,000 tax exemption was something the federations of agriculture, the National Farmers' Union and others fought for very hard. Farmers were unable to make plans to take care of themselves in their retirement years due to market fluctuations, poor commodity prices and all the other things that make farming almost impossible for anyone who is trying to live on a 200-acre farm today and buy pieces of equipment for $100,000. That was lobbied for heavily by the farm communities and I supported the farmers. When the statement came out that it was for everyone, everyone was surprised and even the farm communities said they were not sure it was done for them, so there was some criticism from them.

Dr. Beigie: I understand that and I think it was true. In his first budget, the Treasurer (Mr. Nixon) has recognized that is an issue and that is the case.

Mr. Callahan: May I get clarification of that, please? You say that was for farmers. How could a farmer get a severance to sell of part of the land so he could take advantage of it? And if he sold the full 200 acres, he could not possibly take advantage of it in the first year. You are entitled to only $20,000 of it in the first year. It spins off over the five years. I do not understand how the farmer would have--

Dr. Beigie: You would have to get the farmer to wait to die until the full amount comes in.

Mr. Callahan: Even if he died, if he sold the full 200 acres in one year, unless he had a mortgage situation, he could not take advantage of the full capital gain. He could take advantage of only $20,000 of it the first year.

Mr. Mancini: A person could take advantage of whatever he could take advantage of.

Mr. Morin-Strom: On the broader issue, you have laid out quite a program in terms of what people in our party might call an industrial strategy and basically advocated strongly that our political system of government should be putting investment in four key areas. I agree we should be supporting a much greater level of investment in our future and we should be involved publicly in that.

As well, you said we must have a focus for investment strategy on seven areas. I suppose different people argue about where they should be, but you are talking about a government plan for where the economy goes that contradicts the whole concept of the philosophy of the federal government we have today, which is a market economy and noninterference by government. It is quite apparent that the government has no intention of going into such a strategy. Its strategy is that it wants to get government more out of business and out of economic decision-making and it wants to go towards free trade to encourage more market decision-making.

You seem to be advocating two contradictory positions.

Dr. Beigie: No, I am advocating two positions, and I would argue that if Adam Smith were sitting right next to me he would say, "I agree with you." Externalities are the critical issue and they are recognized very clearly by Adam Smith as being an important area in which we should be supporting those areas that generate positive externalities and moving against those areas that produce negative externalities.

I am defining, and I was careful that my core sectors are infrastructural, where there is a need. In the case of the forests, for example, or even better, fish, we have a clear example of a difference between Canadian philosophy and US philosophy. The Americans say, "Fish the thing to death." Canadians historically say, "Fish on a maximum sustainable yield basis." The free market will not fish on the basis of maximum sustainable yield. Therefore, you have to put regulations into effect to achieve sensible goals.

In the area where you have a reasonably efficient possibility at least for the market system to lead to beneficial results, set the broad regulatory framework in such areas as children's labour law, for example, but basically, where you do not have these big externalities, give the private sector the opportunity, if it succeeds through efficiency, to be allowed to grow.

You are right that there are two different lines of approach, but there are basically two different philosophies that can live compatibly with one another. Where we may differ--and I do not want to put words into your mouth--is I would argue that I do not really care how we achieve a world-class telecommunications system in terms of the facilities that are put in place. What is desirable to me is that Canadians of the future have a top-notch set

of facilities, a system they can get into and off of quite easily. If our companies are not able to give that world-class system, we should be willing to look outward to find those facilities that are available from other countries.

I would not just say because it is a core sector that means you would put up with anything the private sector does in terms of its behaviour and performance. Effective regulation is the key.

4:20 p.m.

Mr. Morin-Strom: This apparent contradiction between an industrial strategy which implies a planned economy versus the free trade market approach of the Conservative government is perhaps the root of the problem of why major groups such as labour and the more socially progressive groups are absolutely opposed to the initiative. They feel the economic philosophy behind the federal intiative is a market driven one, which would preclude any emphasis from this government. There would appear to be no emphasis at all on a planned economy approach to determining where Canada is going to go, how it is going to go there and how we are going to put into place the technology, the research and the people who can ensure we will be competitive.

Dr. Beigie: If I may just say quickly, because I know the time is up, while I do not necessarily agree with you 100 per cent, I want to be clear that it is registered that I do not disagree with you either 100 per cent.

The issue is that there is a need for clarification of what people mean by planning. In the past, what planning has too often meant in Canada is that you get carte blanche, in effect, to be inefficient. As long as you have enough people working for you, you are going to be able to get political support.

My core sector approach moves to economically logical bases for government intervention rather than political logic. We would have to go through--and I am sure we could have a productive conversation, but I do not want to take the rest of the committee's time--what was really meant by the term "planning." It is just like the term "free trade." People tend to use it and have different things in mind. There is a tendency to talk across them.

The Acting Chairman (Mr. Cordiano): By way of supplementary--I am abusing my privileges here, but--

Mr. Mackenzie: We usually let the chairman do that, you know.

The Acting Chairman: In this whole question of industrial policy or strategic planning, if we look at what the US does in the area of military expenditure, for example, it is certainly a planned approach. It is certainly beneficial to the economy, so they are not going on the free market approach alone. They have instances of strategic industrial policy initiatives.

Mr. Stewart: If you follow that through, if you look at where the areas of strength are today in the US, they are the Northeast, Texas outside of the oil sector, and California. Each one of them has had either major procurement contracts from the military or tremendous research and development initial expenditures.

The key difference, however, is that having done that--and they did this with agriculture and with the road system or their automobile network--they

then stepped back and said: "Go. Here is the initial push; here is the initial framework." We can quibble about the effectiveness of military versus civilian research and development, but after that the market came in to decide. Japan did very much the same thing.

The Acting Chairman: Exactly.

Mr. Stewart: They have focused on different areas, but they have gradually--and in some cases rapidly--pulled back and said, "You stand on your own." If you look at what Japan is doing right now, it is dismantling barriers in the very areas it used to protect. We can quibble about whether we can do that, but there is no case where you do not have supply areas where the market does not supply what you need. That is what the infrastructure debate is over.

Dr. Beigie: A very simple message is that the requirement in terms of scarce government funding to bring embryo ideas and industries into the developed stage is much less than maintaining artificially developed companies that do not stay at the head end of the innovative process.

What I think you are seeing in terms of the general reaction against government support for various kinds of things is not that it is totally carefully thought through that it is undesirable. They just say, "Look at the results." This is where you have to do analysis as opposed to just politicking. You simply cannot just say you throw out everything, but that is the reaction.

You people live in this world; public policy sentiment swings like a pendulum like crazy. We happen to be in the pendulum right now of swinging in that direction. I am not going to disagree with you that there is a certain element, at least as it was initially proposed, of exactly what you are saying; that we will get the free market into here by importing the United States. I think, because they have looked at the issue, that is where--I forget who said it; maybe it was you--the public is starting to react. They are saying, "Just a minute; if this means we are going to adopt holus-bolus the US way of carrying on business, no way." That does not mean, in my judgement, you should say, "Walk away from the table." There is still something that may work.

Mr. Chairman, I know you want to go. Thank you very much for your time. I have certainly enjoyed the questions and I wish you all the best of luck.

The Acting Chairman: I am going to grant one final supplementary, very briefly.

Mr. Callahan: Along those lines, take the case of de Havilland, where we have developed through R and D a world-class type of aircraft and then we get rid of it.

Mr. Morin-Strom: And the Urban Transportation Development Corp.

Dr. Beigie: No. That is a little different.

Interjections.

Mr. Stewart: You have to come back to basic business realities. You built something that was for a government procurement market and you are getting the marketing and distribution. If you do not have those networks, what good is that product?

Mr. Callahan: Then it is along the lines of what my colleague said here. Our difficulty is that we come up with great ideas, build the best mousetrap, put it into production and then we cannot sell it.

Dr. Beigie: Take a look at Candu. Almost everybody I have talked to tells me that technically it is a superior method for nuclear power generation. But, just as with the Avro Arrow, we developed it in the market for which the political decision-making among governments is the critical issue and we do not have the clout. I am afraid Atomic Energy of Canada Ltd. is in serious trouble; yet technically it is first rate.

Again, I go back to electricity. Who was it in the Niagara Falls who really saw the potential? It was a Canadian. Where are we in terms of the production of the things that the electricity age has made possible?

Mr. Callahan: They are trying to sell that water, I think.

The Acting Chairman: Dr. Beigie and Mr. Stewart, I would like to thank you on behalf of all members of the committee. You brought up some very interesting issues, as well as shed some light on some of the difficult issues we are trying to deal with. I tend to agree with you in regard to the trade as being an evolutionary process over the long term. I thank you on behalf of all the members of the committee.

Dr. Beigie: With a group like this, it must be a fascinating committee. Thank you again.

The committee adjourned at 4:28 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

FRIDAY, APRIL 11, 1986

Morning Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
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Smith, D. W. (Lambton L)

Substitutions:
Callahan, R. V. (Brampton L) for Mr. D. W. Smith
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes
Mancini, R. (Essex South L) for Mr. Ferraro

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Canadian Chemical Producers' Association:
Gibb, G. C., Director, Economic Affairs
Bentley, G. F., Group Vice-President, Rubber and Plastics, Polysar Ltd.
Hay, D. S., President, Agricultural Group, C-I-L Inc.
Blachford, Dr. J., President, H. L. Blachford Ltd.

From the Canadian Broadcasting Corp.:
Whittaker, S., Vice-President, Planning and Corporate Affairs

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Friday, April 11, 1986

The committee met at 10:06 a.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: We will start. We have the Canadian Chemical Producers' Association. The four representatives of the association are on your agenda. They are Graham C. Gibb, G. F. Bentley, Dr. John Blachford and D. S. Hay. Gentlemen, some economists have given us some information as to what may or may not happen to your industry if we enter into some bilateral arrangements with the United States. We look forward to what your own feeling is in so far as that is concerned.

CANADIAN CHEMICAL PRODUCERS' ASSOCIATION

Mr. Gibb: The association and its 70 member companies welcome this opportunity to discuss an issue we think is of vital concern to Ontarians and to all Canadians.

Mr. Chairman, you have already introduced us. My name is Graham Gibb. I am director of economic affairs for the association. I have been intimately concerned with the CCPA's involvement in this issue for several years. I think you have seen the formal position paper that our CCPA adopted unanimously last fall, "Policy Principles Concerning a Proposed Canada-US Free Trade Agreement with Particular Reference to Bilateral Trade in Chemicals." I do not propose to read the statement at this time, but since it is fundamental to our discussions this morning we ask that the statement be incorporated in the formal record, if that is possible.

If it is in order, I would like to make a few introductory comments to explain the organization we represent, the extent of our commitment to the policy principles and some of the fundamental considerations that underlie them. Then my colleagues and I will be at your disposal to try to answer any questions you may wish to pose.

At the outset, I would like to emphasize that all member companies of this association considered very carefully and in significant depth the implications of bilateral free trade with the United States. The association represents some 70 manufacturing companies that produce some 90 per cent of Canada's total output of manufactured chemicals. The criterion for membership in our association is that a chemical reaction take place, so as CCPA we do not represent the formulations that occur further downstream such as pharmaceuticals, paints and so forth, although many of our member companies are involved in those aspects of the business as well.

With annual production in the order of $8.5 billion, the industry employs more than 28,000 people. About half of the industry is located in Ontario. More than 30 per cent of the industry's products are shipped to export markets, the US taking about two thirds of such exports.

The association membership is organized in three product sectors:

petrochemicals, by far the largest based on sales value, something in the order of 60 per cent; inorganic chemicals; and organic and specialty chemicals. In addition, there are 10 producers of fertilizer grades of ammonia, some of which are members of CCPA, although CCPA statistics do not include this ammonia production which is compiled by the Canadian Fertilizer Institute.

While each of these sectors is relatively capital and technology intensive, they display varying characteristics of plant size and market orientation, so that the development of an industry consensus position on bilateral trade has been an extremely interesting exercise.

In developing our position, we obviously have had to take account of our perception of the implications of bilateral free trade for the Canadian industries that use our products. Nevertheless, I want to make clear that we do not purport to speak for these customer industries, nor for the other industries that supply us with raw materials and other goods and services.

As far as petrochemicals are concerned, our advocacy of free trade goes back a long way. We were pushing it during the Tokyo round of the General Agreement on Tariffs and Trade negotiations, but it could not be fitted into the negotiating time frame. Both Canada and the United States agreed that this was an unfinished item of business at that time. On this basis, CCPA in 1980 formally expressed support for the bilateral removal of tariffs between the two countries on a broad range of petrochemicals. During 1983 and 1984, petrochemicals were put on the intergovernmental agenda for talks between Gerald Regan, then federal Minister of State for International Trade, and his American counterpart, United States Trade Representative William Brock. The CCPA participated in official hearings on the subject conducted by US agencies early in 1985.

With the change in the federal administration in 1984, public discussion of the bilateral trade issue broadened and a narrow sectoral approach lost favour. As a result, CCPA widened its own interest to embrace all its segments. Noting that a GATT negotiation, even if it could be arranged--there was some doubt at that time--would require many years to complete, the association in a submission to James Kelleher, Minister for International Trade, in May 1985, urged the Canadian government to complete a framework agreement with the US as a means of containing protectionism there. It also asked for immediate steps to negotiate the removal of bilateral trade barriers on petrochemicals and undertook to assess the probable impact of bilateral free trade on its other member groups.

At that stage of the process last May, we were unsure how the nonpetrochemical segments of our membership might be affected. The duty reductions adopted in the Tokyo round would put as much as 75 per cent of inorganics productions, based on dollar value, in a free trade condition by 1987, but other relatively small inorganic producers and specialty chemicals producers would still have significant levels of protection. Accordingly, we embarked on an ambitious project of company-by-company interviews covering every member firm, including petrochemical firms, to examine the opportunities and problems that bilateral free trade in chemicals would create if achieved over various time spans.

We were trying to probe the issue pretty deeply and the results are embodied in our statement of policy principles. What we found was a broad measure of support for bilateral free trade in chemicals between Canada and the United States. This does not mean Canadian chemicals are immune to the

loss of protection in their home market. Most companies, even those most strongly in favour of the free trade initiative, foresee some difficult transitional problems ahead. Nevertheless, a significant majority of member firms, representing an even higher proportion of industry sales, believe these adjustments can be accommodated given a reasonable phase-in period. In fact, in the view of many, duty protection can only delay, but not prevent, the business adjustments they will inevitably have to make. Also, the adjustment process will be facilitated if it can be carried out in the context of large market opportunities.

Moreover, most companies believe they will gain in the longer run from the removal of current uncertainties and the fear of protectionist moves, from lower cost process inputs and from the exploitation of new market opportunities in the United States. For a number of petrochemical companies already competing in the US over high rates of duty, the improvement in cash flow and competitive strength would be even more immediate.

Obviously, the extent to which Canadian operations will be able to adjust to and benefit from the removal of Canadian and US tariffs will depend very much on the economic environment for business in this country, and on the structure and level of Canadian costs. To this end, CCPA's policy statement includes a call on the federal and provincial governments to give renewed priority to industrial and other policies that will foster and support industrial competitiveness and growth.

We cite in particular market-sensitive energy supply and pricing, a pro-competitive transportation system, minimal interprovincial barriers to trade and investment, competitive tax burdens and sensible health, safety and environmental regulation, and we appreciate that governments in recent months have moved in a positive direction in a number of areas.

Our association sees the length of the adjustment period as being the primary adjustment mechanism, not any fixed period that would apply across the board although five years may be appropriate in many cases, but longer or shorter periods as conditions warrant. We do recognize that some situations may arise where no satisfactory adjustment is possible and that in such cases individual companies may wish to seek special treatment such as an exception in the agreement. It is not anticipated there will be many of these.

Although public discussion tends to focus on duty rates, of equal or greater importance is the need to ensure that once achieved, improved market access remains secure. An important element of a bilateral agreement will be to get a clear understanding on both sides of the range of policy measures a government can take without risking countervail action by the other. The agreement will also have to contain provisions to prevent injurious dumping or other predatory pricing practices. We have suggested that existing GATT rules should apply in this regard and that a joint intergovernmental body be established to ensure consistent and legitimate administation and to settle any disputes that may arise.

In supporting bilateral free trade with our neighbours to the south, CCPA wishes also to confirm its support for the multilateral trading system evolved through the various GATT rounds. For petrochemicals in particular, the Pacific Rim markets are of crucial importance and we must continue our efforts to promote trade with those countries. We are gratified that both this country and the United States are among the leaders pressing for a GATT negotiation to begin in the near future, but a multilateral negotiation will be time consuming and may fail to give adequate priority to purely North American

concerns. Indeed, in our view, a Canada-US agreement may well serve as a catalyst towards strengthening the multilateral trading environment.

We are not in a position to provide you with precise quantitative estimates of job gain or job loss. Our own survey indicates that in a worst case scenario, cases of real curtailment or shutdown would account for less than 10 per cent of the value of industry production or of the total number of employees. The survey is deficient, however, in that it could not be specific about the upside of the equation, since it is always easier to identify existing operations that are at some risk than new operations that have yet to materialize. We note that a number of recent studies have suggested that in the aggregate employment gains are likely to exceed employment losses. We might also note that despite dire predictions that preceded earlier GATT rounds, there is little in the literature to document that on an overall basis predicted employment curtailments actually came about.

To sum up, CCPA supports a bilateral trade agreement with the United States that will enhance our access to US markets, make such improved access secure over the long term, provide adequate time frames for adjustment, be supported by pro-competitive government policies and be fully consistent with and encouraging of improved multilateral trading relationships.

Thank you for your attention. We invite your questions.

Mr. Chairman: Thank you for a very thoughtful presentation.

Mr. Callahan: Dealing with the United States at the present time, what is the tariff rate for exporting and importing?

Mr. Gibb: They vary across the whole range. For a good part of inorganics production, there is already free trade or there will be when the current cuts are completed. Since a lot of sales are to primary producers that export, whether there is a tariff or not you are competing on a tariff-free basis because of the availability of duty drawbacks on goods such as pulp and paper or whatever that are exported.

In the petrochemical area, the tariffs tend to be fairly high. They are high on both sides. There are cases where we are high and they are low, and where they are high and we are low. Generally, tariffs are very high in the petrochemical area. In the organic and specialty, with the caveat that sales to exporting industries lose any protection, by and large tariffs tend to run in the 10 to 12 per cent range.

10:20 a.m.

Mr. Callahan: Have they been coming down as a result of the GATT negotiations?

Mr. Gibb: Yes.

Mr. Callahan: Significantly? By a percentage point or so each year?

Mr. Gibb: They have been over the past few years. From the Tokyo round, over eight years they have dropped from a level of about 20 per cent to 12 per cent; it is in that order.

Mr. Callahan: You say tariffs on some products are lower and on some

are higher, back and forth. Does that situation exist in dealing with the Pacific Rim countries?

Mr. Gibb: There is a different kind of problem in the Pacific Rim, particularly with Japan, which has various ways of controlling its imports.

Mr. Bentley: I appeared before this committee once before, last fall.

Mr. Chairman: Polysar.

Mr. Mancini: He liked it so much he came back.

Mr. Bentley: I read your report and came back.

The Pacific Rim is relatively open. Canadian companies have not really developed in that area. As Mr. Gibb said, the Japanese have many ways of controlling their markets; they tend to have restrictions and regulations and so on. As I said to you the last time in response to a question by Mr. Mackenzie, that is why we feel GATT is very important to get more open trade. Many of the things we are concerned about are not the existing situation but the drive in the United States, in particular, to put up newer barriers. We feel that if we do not go in the direction of more open trade locally, starting with the US, it is going to get more restricted. That is an insidious web that will develop and restrict trade around the world.

Mr. Callahan: That leads into my next question. We have learned, at least I did, from a visitor to this committee that this problem is hypothetical but not without some historic background. Let us say the US decides to take a rather aggressive approach to imports from Japan. Let us put the scenario that we have entered into a bilateral agreement with the US and that as a result of that we are looked upon as a kissing cousin and we are affected by the same retaliatory blockage of dealing with the Pacific Rim countries. You can take it even beyond that, with the emergence of China as a very significant trading partner. Even though the US recognizes Red China, it could decide somewhere down the pipe to derecognize it.

I recognize these are all hypothetical situations, but in my view they are things that have to be looked at in the long-range planning for any type of bilateral agreement. Do you see any dangers there?

Mr. Gibb: As you say, the scenario you paint is hypothetical. Perhaps there are; I do not know. You have to realize that in the US, despite pressures from here, there and everywhere from groups within the US, the official line has been and continues to be in support of the freeing of trade around the world. If they are concerned with Japan, it is because of the dissatisfaction or perception that Japan is not playing the same game.

I guess you start making judgements then on whether the US is going to be forced or feel impelled to take retaliatory action against other countries. I do not know why that necessarily should impinge on us and whether we should be caught up. That is part of having negotiations with the US. We have been blindsided on a number of issues, and it costs a lot of money, executive time and even jobs to go down and fight because the US has been taking action against a producer somewhere else in the world and puts a restriction on steel, which has affected certain steel products and so forth.

As I mentioned in my opening remarks, perhaps more important than the duty reductions is to get a climate in which you can plan with some confidence

on access to the US market. An agreement has to come to grips with the kinds of concerns you are raising. Right now we are very vulnerable to being caught by a sideswipe. Obviously one will have to wait until the agreement is drafted to evaluate whether it has done the job, but in advocating it--a driving force in all those company surveys we had--a very great concern was the threat of protectionist actions arising in the US either at us or perhaps because they do not distinguish our performance from that of other countries. That is the major driving force behind the CCPA position.

Mr. Hay: I would like to emphasize that point. I am sure there is a danger of protectionism developing around the world because of the difficult economic circumstances, but from Canadian industry's point of view, the greatest danger is protectionism developing in the US against Canada. If we can move one step forward at a time and through bilateral trade ensure that it does not become a real danger to Canadian industry, we can move on from there and, we hope, through the GATT negotiations alleviate the danger elsewhere. We accept, though, that you cannot answer all the questions with one snap of the fingers.

Mr. Callahan: That seems to have been the genesis of all these discussions about free trade, these "protectionism" statements that were being made in the US.

I have one final question. What percentage of the members of your association are US subsidiaries as opposed to strictly Canadian companies?

Mr. Gibb: I think it is about 65 per cent.

Mr. Callahan: To follow up on that, if a bilateral agreement were entered into with the US, and let us say the Canadian dollar did not stay where it is, but rose to 80, 90 or--we all pray--100 cents on the dollar, would that have any bearing on whether the subsidiaries would move back to the US? In other words, if there were no barriers--

10:30 a.m.

Mr. Hay: Graham suggests I might reply. I am employed by a company that is part of a multinational group, but not a US multinational group; so I might have some difficulty speaking on behalf of the American companies.

I merely observe that the products involved with a number of the US multinationals with Canadian subsidiaries are already duty-free and have been for some time, and there is no move on the part of those companies to move the production, for example, back out of Canada into the US. Therefore, we already have the evidence of what is being claimed by the Canadian subsidiaries, that this is not a real danger.

Mr. Callahan: That is the question of tariff. The second part of my scenario was related to the dollar. We had testimony yesterday that to some extent--in fact, the last professor we heard, Dr. Beigie, said the efficacy of this whole scenario may depend to a large extent upon a pegging of the dollar at a specific level.

Perhaps you could address the second part of my question. Recognizing that you have dropped the tariff barriers, if the dollar is not pegged and if it rises, do you see the 65 per cent that are US subsidiaries, or some of them, moving out of the country and back to the US?

Mr. Hay: I can only speak from practical experience in this. I worked for a long time in the United Kingdom, where the exchange rate went very much against our company as a multinational and caused our exports to be at a loss for a prolonged period. In those circumstances, you say: "Are you in the business for the long term? Do you flip production centres for variations in exchange rates?" The answer is no. You have positions in markets, you have the confidence of customers built up over a long period of time and you cannot make sudden changes, because they say: "Unreliable supplier. That is not the sort of company we want to deal with." That has to be important in the background thinking of individual companies.

Mr. Bentley: May I comment from a different point of view? I do not know whether I made this point the last time I was here. As Canadians, we tend to start from the premise that we are second-class, that we do not have advantages. The fact is that in the petrochemical industry, Canada is a hydrocarbon-rich country as compared to the US. We have a long-term advantage with those industries that are at an advantage being in Canada over the long term as opposed to being in the US. The US also has these talks going with Mexico, which has a hydrocarbon-rich base.

Another example is the automobile industry. You tend to think that if the auto pact were to disappear, the Americans would move their plants back to the US. In fact, as you all know, General Motors is spending a great deal of money here. If you talk to American corporate executives in the automotive industry, you learn there are still distinct advantages to producing in Canada.

I think that tends to be a bogyman that we all get spooked by. In fact, it is not a reality.

Mr. Gibb: I might add something else. The reason I was hesitating in giving my reply was how to handle this question of the exchange rate. Sometimes we get caught up with the idea that the exchange rate is fixed in time. The best situation for a country, as witness Germany 15 or 20 years ago, is to have an exchange rate that is appreciating; that reflects the fact that you are in a very competitive position. If we make a good deal and Canada benefits from that, we should expect the exchange rate to rise. That should not suggest we are going to be worse off because we have lost some competitive advantage. The exchange rate tends to follow your cost structure, if I am clear on that.

The other point that has been raised by a number of our companies, and I have heard it elsewhere, is that given the kind of situation we have now where in the North American context you have about 90 per cent of the consumers south of the border and 10 per cent here, lack of confidence in the policy and no real co-ordination of the actions taken on either side, it makes good sense to locate your production on the side where the majority of the market is. Therefore, given an agreement that puts some regularity into that and gives us secure access, we remove that hurdle. It has been argued that you will have more investment, research and so forth in Canada because you have removed the constraint of the possibility of adverse government decisions. Companies have indicated that their research expenditures have been held up because of uncertainty about the markets they are seeking to serve.

Mr. Chairman: Mr. Mackenzie, do you want to take another shot at Mr. Bentley?

Mr. Mackenzie: I have a couple of questions.

What we have just finished discussing, what is going to happen to the branch plants, is a question a lot of people would like to get a better handle on. You can use the GM situation, but you can also use the Allen Industries situation in Hamilton. A number of people who have looked closely at it, including the union involved, have a very strong suspicion that it was not just the wages that prompted the move to Chihuahua, Mexico, although that was a substantial difference. There was also the fact that there is now a form of content legislation developing, as well as a rapidly increasing auto parts industry, in Mexico. One of the deals made in terms of meeting that content requirement was the move of that plant, however the influence was used. Therefore, it is not just the tariffs; various other incentives, such as the auto pact or the content legislation they now have in Mexico, have an influence on whether branch plants are going to move.

However, that is not my main concern. I know Mr. Bentley is aware from his previous appearance before this committee that the numbers game, whether or not it is a difficult one to play, is one of the major areas of concern to workers in this province.

On page 4 of your brief, you say: "Accordingly, we embarked on an ambitious project of company-by-company interviews covering every member firm, including petrochemicals, to examine the opportunities and problems that bilateral free trade in chemicals would create if achieved over various time spans. We were trying to probe the issue pretty deeply and the results are embodied in our statement of policy principles."

Yours is one of the first groups that has told us it has done an in-depth or intensive survey of its members. Generally speaking, you are a group that has had a position in favour of the free trade negotiations and a free trade pact. Some of your members know from previous hearings that it is a concern of ours that we have not been able to get any handle on numbers.

After that opening statement, you end by saying, "We are not in a position to provide you with precise quantitative estimates of job gain or job loss." Indeed, you quote only your worst-case scenario, that it could mean a 10 per cent reduction. I am presuming your better-case scenario shows some improvement. Given that we have heard some pretty specific figures, as well as the generalities, in terms of those jobs that are at risk, and even from some firms the extent to which the jobs may be lost, I would have thought you would have been able to give us a better picture of where the gains are.

Frankly, that is one of the things I and some of the others have been trying to get at from the beginning of these hearings. You have done the in-depth survey, as you say in your statement, but you cannot give us any specific figures.

10:40 a.m.

Mr. Gibb: We have not cited any figures on the positive side in this statement. As I indicated, it is hard to get precise numbers. As a result of that survey, we have a number of situations where companies have indicated that the prospect of free entry into the US will encourage new investment in Canada, a shifting of their activities and higher employment. Unfortunately, not every company answered in that way. In all conscience, I cannot add up and say, "Here is a number."

While we cite the worst case, what we tried to say was that if nothing else happened and just took into account the losses of production and the

losses of employment that have been indicated by a relatively small number of firms--a larger number of firms proportionately than their sales value, I will admit--it came to less than 10 per cent of the total value of manufactured chemical production. The reason it is the worst case is that it does not include any of the offsets I know about or any of the changes I do not know about. It is a little confusing because changes are occurring, free trade or not, in the staffing of chemical plants.

I referred to several studies, which I think the committee is aware of--one of them is the ARA Consultants study--that also point out that there are employment and income benefits in a lowering of the cost structure to consumers. As an association, we have not undertaken a macroeconomic analysis that would enable us to estimate the employment effects in the economy as a whole. However, those studies are worthy of serious considertion.

As I also indicated, at the time of the Tokyo round, I was employed by the federal government in the industrial policy area. There was a lot of talk about the job losses that would ensue with the lowering of tariffs at that time. We have done some studies that question that. Over the years since, I have been interested in seeing whether any of those dire predictions materialized. I can honestly say they did not. There are cases, of course--there are cases in our industry, which we have cited in the worst-case scenario--where under a new trading regime some things will not be practical. What we are unable to do with any completeness is identify the changes that will occur on the positive side.

Mr. Mackenzie: On page 5 of your brief you state, "Most companies, even those most strongly in favour of the free trade initiative, foresee difficult transitional problems ahead." They believe, you say, "these adjustments can be accommodated given a reasonable phase-in period."

There are so many caveats to this whole question. I noticed that Mr. Yeutter, speaking to a businessmen's club in Calgary on February 28, stated we would have much transitional time. He was quite specific, if you read his comments in the paper. He also indicated, as we have heard down in Washington, that everything has to be on the table.

I recognize Mr. Yeutter may be doing a little advance negotiating as well, but suppose we are not able to come up with a five- or 10-year phase-in period in many of our basic industries. Would that change any of the conclusions your organization has come up with?

Mr. Gibb: You should note there is provision for 10 years in the US-Israeli agreement.

Mr. Mackenzie: I am not sure that has much relevance to us.

Mr. Gibb: It may; I do not know. I have talked to our counterpart organization in the US. It is not open and shut; there will have to be discussions. There are some Canadian chemical companies that would like to have free trade yesterday, particularly those that are very heavily dependent on the US and shipping over a tariff of 16 per cent, which they are absorbing. You can imagine that if you could retain that in your coffers, your cash flow and your competitive position would be significantly enhanced.

We are going to be talking to our counterparts in the US in this area. One does not know what will come out of it. The ones I have talked to have not been totally against the concept of varying adjustment. We are at a very early

stage in saying we might do it faster on some products and they might cut faster on others. At this point the US is tending to think if it is five years, it is five years on both sides; if it is 10 years, it is 10 years on both sides. The Royal Commission on Economic Union and Development Prospects for Canada suggested there might be a longer phase-in for Canada. Whether or not we negotiate that, I do not know.

After the interviews--and we convened a meeting of senior people--our industry concluded that an adequate phase-in period would be the primary adjustment mechanism. They did not want to get very far into developing adjustment assistance programs. The mechanism in place is pretty good. We will have to pay attention to retraining and mobility, movement of workers who are affected. That presumes there will be places for them to be trained into or move into, and we firmly believe that will transpire.

Mr. Chairman: I have a supplementary to Mr. Mackenzie's question. The reason I had the ARA Consultants' report passed down to you was that we commissioned that report. We basically asked him to survey the high-tech industries and report to us the effect they feel free trade would have on them. He gave a very positive green light for most of the high-tech industries, but the one cautionary message he gave us was found on page 4-16 and in his conclusion on page 6-8.

On page 4-16, dealing with organic and inorganic and specialty products, he says: "The Canadian inorganic chemical producers"--and I take it from looking at the appendix that it was mainly yourselves he was talking to--"have a mixed reaction to free trade, since several products would be adversely affected by lower tariffs in Canada. Organic and specialty producers do not enjoy any competitive advantage in raw material costs and operate small, relatively high-cost facilities. The removal of Canadian tariffs would be potentially harmful to this sector of the economy. From a US perspective, Canadian tariffs are too high in this sector (e.g., 10 per cent versus 3.7 per cent in the case of sodium hypochlorite) and should be reduced." Is that a fair comment?

His final conclusion is: "The Canadian industrial chemical industry is more vulnerable to a free trade arrangement than other high-technology industries. Accordingly, Canada should seek a phasing-in of tariff reductions...." Of course, his general conclusion was to go for it on high-tech industry.

Mr. Gibb: I am not sure I have absorbed all the words you read and that he has printed here. The possibility of using Canada as a channel to circumvent the US tariff has been raised by our American counterpart, and we have looked at it. Any free trade agreement that has ever been instituted has had provisions to prevent a mere pass-through of duty-free imports from one end to the other.

Mr. Chairman: Yes.

10:50 a.m.

Mr. Gibb: The Canadian Chemical Producers' Association accepts that principle, but we are looking for a content requirement that will be reasonable in terms of business practice and international economics. It would be possible to set content requirements that are higher than even the domestic content if the thing were wholly made in the US, for example. I think that problem can be dealt with.

The US also has been very much concerned in past years with the impact of our foreign investment screening policies, our energy program and so forth. The recent changes have gone a long way to alleviate those concerns. They obviously want some assurance that they are now part of the Canadian psyche and may not be reversed flippantly at some future date.

Our energy system now has moved to market sensitive pricing, which in effect means we will be able to access raw material. I should let the industry experts speak on this, but we will access our feedstocks on the same basis, but not a preferred basis, unless it is a natural event, compared to our competitors. Surely, the US cannot ask for anything more than that.

Mr. Hay: Mr. Chairman, may I comment on your question from the viewpoint of one company, a member of this association? We as a company are quite clear that we have to be competitive with the best in whatever we are doing. We also are clear that we are not competitive with the best in every part of our business. You could talk to some parts of our business, as maybe these consultants would have done, and, for a comfort factor within that part of the business, might well get the answer, "We would like a long transition period." That would be the most comfortable situation to deal with and would be the case with some of my colleagues.

However, looking at the overall situation, we are quite clear in our minds on the benefit of the freer trade opportunities that are open and the reduced risk of protectionism. Therefore, in coming to an overall conclusion we have no difficulty admitting there will be some discomfort in some parts of the business along the way.

Dr. Blachford: I would like to mention that I manage a small Canadian chemical company. It sells only $20 million and employs 120 people. There are very few small Canadian chemical companies, partly because the market is small. The market is small because it is hard to export into the US because of tariff barriers. To get around that, we have established a subsidiary in the US. We have three plants there and our sales are about the size of the sales here. We are thinking of investing again in the US, but we probably will not do so if there is bilateral free trade.

I also would mention that many of our products are made in Canada under licence agreements with several American firms. If there were free trade, we would have to terminate those agreements, and we would have to specialize in other areas. All that would take quite a long time, so we are certainly very keen on a long phase-in period--five years at least.

Of course, one result coming from the termination of the licensing agreements would be that we would do a lot more research and development.

Mr. Chairman: I am curious. When you did your survey, was Mr. Donner talking to you or did he survey your members as well? Do you know?

Mr. Gibb: I am not sure whether he did directly. I spoke to him at one point for perhaps an hour or so. I cannot recall the exact timing of that discussion. It was at some time last summer. We were in the throes of doing the survey. Probably I had some partial results but not 100 per cent, so I was getting some evidence of the trends.

Mr. Chairman: How many companies would you have surveyed?

Mr. Gibb: We have talked to all of our 70 member companies. There was a team of interviewers.

Mr. Cordiano: May I ask a supplementry? On this question of the tariff, you said the tariff was quite high going in, trying to export to the US.

Dr. Blachford: On some products.

Mr. Cordiano: On some products that you are involved with.

Dr. Blachford: Yes.

Mr. Cordiano: Would it be an advantage to set up a plant in the US?

Dr. Blachford: Yes, still.

Mr. Cordiano: Could you expand on that?

Dr. Blachford: It depends a lot on the particular product or product group you are talking about.

Mr. Cordiano: That would be enough motivation for your firm to set up a plant in the US to get around that tariff barrier?

Dr. Blachford: Yes.

Mr. Cordiano: How high is the tariff barrier in those areas you are concerned about?

Dr. Blachford: On the products I am talking about, the barrier is about 12 per cent.

Mr. Cordiano: Speaking of the industry in general, are there high tariff barriers as far as exporting to the US is concerned?

Mr. Chairman: Apparently it averages 3.7 per cent in nonpetrochemical chemicals.

Mr. Hay: In organic areas that my company is concerned with, tariff barriers are not the main concern in this. It is concern about protectionism because we have a large business in the US now which could be very badly affected through protectionist moves.

Mr. Cordiano: I was looking at this question of relocating plants in the US. I wonder whether some of the major reasons for locating a plant have to do with the tariff barriers. As you have indicated there is enough incentive for you to move to the US because of the tariff barrier. I suppose when it is that high it certainly comes into play.

Mr. Bentley: Large Canadian companies with a 12 per cent barrier, such as we have on our styrenics, have to put the plants in the states in order to compete. Under normal circumstances we would put those plants in Canada. We are a Canadian company.

Mr. Callahan: Even with the dollar being depressed, the wages?

Mr. Cordiano: Those all are significant factors that we have been told are to our advantage. As far as locating a plant in this country is concerned, the average industrial wage is significantly lower than that in the US, in fact in surrounding states on the border to this province.

Mr. Bentley: Given an open border, regardless of the dollar, we would tend to invest in Canada as opposed to investing in the US. Even under these circumstances, we have most of our assets and hardware in Canada, although we have a number of plants in the US and sell a great deal in the states. In those products where there is a 12 per cent barrier we have to put plants on both sides of the border.

Mr. Cordiano: Certainly all of these other factors would enable you to locate a plant in this country or there would be very good reasons for locating a plant in Ontario.

Mr. Bentley: The point in the petrochemical industry in Canada is you have a long-term feedstock advantage which is the key to the petrochemical industry.

Mr. McFadden: I want to get some further background information as to your pattern of industry sales. If you have the breakdown, what per cent of your association members are exporting? What per cent of their production would be domestic sales and what per cent would be export? Do you have any figures on that?

Mr. Gibb: I cannot tell you what percentage of the companies are actually exporting. Something over 30 per cent of the sales of petrochemicals, inorganics, organic and speciality chemicals, are exported. I gave some figures on the aggregate. I said over 30 per cent are shipped for export and the US takes about two thirds of that. That is on the aggregate basis.

The organic and speciality sector, which is smaller, is about 10 per cent of the industry. About half of the Canadian market is served by domestic production. There is a fairly high level of imports in that area. As I said, that accounts for about 10 per cent of our total sales by the industry, which exports somewhere between 15 and 20 per cent of its production. That is the most import-oriented industry, if you like.

11 a.m.

Close to 40 per cent of the petrochemical industry sales are exported. The petrochemical industry is larger and economics of scale are terribly important there. One cannot build plants that are competitive in world terms looking solely to the Canadian market. The future expansion of this industry will depend on access to export markets. The viability of existing plants depends very much on that access.

A question we have not faced in this paper is the loss of jobs. There are jobs at risk if we do not get better trading relationships with the US in our petrochemical operations which themselves are at risk because they absorb the 16 per cent tariff. That is a very difficult figure to quantify, but it should not be ignored because you cannot say it is X point something in quantitativeness.

Mr. Mackenzie: I have no difficulty with that. I find it passing strange that in one of the industries more strongly supportive of free trade than any of the others you can do this kind of in-depth survey. It seems to be easier to come up with a worst-case scenario of a 10 per cent loss than to be able to give us any definite gains. That is my difficulty with it. I know also, as some of your people do, that has been one of the concerns constantly expressed before this committee.

Mr. McFadden: One of the things that strikes me--and it struck me in what Dr. Blachford was talking about--is if you are starting an enterprise it is easy to determine the downside risk because you know how much money you put in the business. You cannot be sure what your sales will be.

Mr. Cordiano: It is the nature of the business.

Mr. McFadden: It is the nature of every business. If you own a variety store on the corner of the street, you know your downside risk is you have to buy the milk on the inventory. You do not know for sure how many people are going to come into the store to buy. If everybody worked their businesses in that way nobody would ever open a business anywhere in the world; if they were totally occupied with the downside risk, nobody would ever employ a person, go anywhere, or start any business.

As I understand it, you are telling us that while you have assessed the downside risk, you believe what is important is the potential here for Canada export, both to hold its existing market and also to develop new ones. Is that a fair scenario?

Mr. Gibb: That is right. We do have that difficulty of putting on the precise number.

Mr. Hay: Not just developing new markets for existing products. I have a number of businesses at present which are increasing their research effort. I would be a brave man if I said in five years' time we will have this number of new products for which we will put up this new manufacturing capacity to serve the US market. We cannot do that. But rather than imagine a figure out of thin air, we can say we would not be doing this if we did not think it would be successful. However, I cannot measure how many jobs will come out of that effort a few years down the track.

Mr. Mackenzie: With that argument, there is potential for new jobs also. That applies whether we are entered into any agreement or not because it is an ongoing development of new jobs and technology. As it is, some of us worry about the thrust of it in terms of part-time jobs and wages, but it is there even without the agreement.

Mr. Hay: That is right and the other side of that coin is that there is an ongoing need to become more competitive, more productive, and also a loss of jobs involved in the existing operations. It is quite difficult to put finite figures on the balance.

Mr. McFadden: I want to direct one question to Dr. Blachford. I thought you made a very interesting point. How many other companies are being affected by this? There are two ways of looking at the whole situation vis-à-vis our trading relations with the US and with the rest of the world. One is to say that we have what one of our witnesses called "institutionalized pygmies" whereby, because of our economic policies over the years, we have tended to get structurally small companies that are servicing a small market. These companies often are not efficient, not export oriented and not particularly oriented to new research and development. So because of our economic policies over the years, this person stated we have what he described as institutionalized pygmies.

To some extent you are suggesting that you have been confronted with that difficulty. A major limitation on your company, Dr. Blachford, and maybe on other companies, has been that without access to the American market you

are limited in what you can do in terms of your expansion plans; you need greater access to the American market in order to expand and develop your company and actually get involved in a lot of research and development that everyone is promoting.

Could you elaborate further and could you or others provide us with information about other companies in a similar position that are being limited by being denied full access to the American market or other markets worldwide?

Dr. Blachford: What happens is that you limit yourself to the Canadian market in order to grow. Once you have satisfied a certain part of that market you tend to diversify. We have become terribly diversified and it is very difficult to manage a very diversified company when the sales for each division are small. We would rather be much more specialized and get rid of some of our divisions and sell a lot more to the US. It would be much easier to manage.

Mr. Cordiano: Could I have a supplementary to that?

Mr. Chairman: In what way is it supplementary?

Mr. Cordiano: With regard to specialization.

Mr. Chairman: We have three more questioners and about five minutes.

Mr. Lane: Basically, I think my questions have been asked. It is obvious that you have done a very in-depth survey of your member companies and have come up with a very up-type projection that free trade talks should go ahead and something should come out of them. I assume there has to be some downside to it. In your survey, was there any major downside that you have to weigh against the upside?

Mr. Gibb: Some of the downside was segments of a business, particular products. In some cases the operation would not have been built in the way it was if it were in a different trading environment, and it has been running for a number of years.

There were some concerns that there is overcapacity in a number of products in the world. If one takes a narrow focus on that, there will be concerns among some of the smaller American subsidiaries about their ability to continue in operation with a larger plant in the US, but that is to be expected. We come back to the kind of economic policies that are supportive of this free trade arrangement. We are not saying that free trade should not be pursued unless we get good policies; we are saying that the more supportive domestic policies are, under any trading regime, the better it will be.

In reading the results of the survey, one questions the time frame in which these concerns about the ability of Canadian capacity to fit into the total picture were being considered.

Dr. Blachford: I might mention that the tariffs on chemicals coming into Canada from the US are higher in general than tariffs on chemicals going to the states. If you remove those, competition is going to increase. There will definitely be a lot of rationalization in the Canadian chemical industry.

Mr. Lane: In your line of business, there are more negatives if you do not get freer trade than if you do.

Dr. Blachford: Overall, I would say, but it is terribly hard to estimate.

11:10 a.m.

Mr. Lane: You talk about the long term, and that is what we should be talking about because short-term approaches never resolve anything very well. You say 28,000 people are employed in the industry, and about half of those are in Ontario. Do you see problems with the numbers, or some movement of jobs? Would there be problems in the short term?

Mr. Gibb: Whenever you introduce a drastic change in the economic situation, whether it is because someone decides he does not like your product any more or you change the tariff, the immediate impact is to get out of what is wrong and it takes a while to move into the other. In the immediate future you will have quite a lot of agitation and so forth. The impact of that will be influenced by the longer-term prospect that is foreseen. Companies do not generally like to get rid of key people because of a six-month or a one-year problem when they can see they are going to need those people in a little longer time span. When it comes to quantifying it, we are dealing in a very abstract kind of thing. I find this very frustrating.

Mr. Lane: You have to look at both sides of the coin.

Mr. Gibb: Yes.

Mr. Callahan: I would like to raise a new point and deal with it quickly. Dr. Simeon gave us an excellent exposé on the difficulties the federal government will have in moving on this legislation alone because of the division of jurisdiction under the British North America Act. In your initial brief, you addressed the question of it being very important that all of the players be prepared to co-operate in their approach to environmental health and safety regulations. I think this is particularly sensitive to your type of industry because obviously there are going to be players bordering the US who are going to have a much more significant sensitivity to the environmental legislation they pass to deal with the use of any of your products near the border or anything that might spill over into lakes and so on that surround these jurisdictions, as compared to, say, a province out west where it may not necessarily affect it as greatly. That gives me some concern. I guess I am answering my own question in a rhetorical form.

Getting all of these players onstream may present a serious difficulty. As one of the terms of negotiating this type of bilateral agreement, they might have to forgo some of the flexibility or some of the stances they might legitimately take on behalf of their own constituencies. I know you must have addressed that because I gather that in putting it in your brief you recognized there was a necessity for all players to be prepared to accommodate that. Will someone comment on that?

Mr. Hay: The context in the brief is associated with being competitive in a number of areas. We need to be competitive on energy cost, and fortunately deregulation is moving in a way that is going to allow that to happen. That is an important feedstock and input cost to the petrochemical industry. We have to be competitive in transportation costs, and we hope Canada is moving in a direction where that will be coming in the not-too-distant future.

We would not want artificial impediments and therefore include safety,

environment and health as other areas where there would not be nontariff barriers or artificial impediments to us being able to trade freely.

Mr. Chairman: Mr. Barlow, can you ask your question in 30 seconds?

Mr. Barlow: I will pass on it. I am sorry. I have to apologize to the delegation. I have been in and out and I do not know what has been asked and answered. I will follow up in Hansard on that.

Mr. Chairman: Thank you very much, gentlemen. We have really appreciated this and it served as the number two punch from the one-two punch that we had at the beginning of last fall.

Mr. Gibb: I might just say, if I may, that if the staff people have any follow-up questions when they peruse this discussion, please have them contact me and we will do our best to meet whatever requirements they have.

Mr. Chairman: All right. We may well do that because this is a constant learning process for us. I do not know if we will ever feel completely confident in it.

As we move to the next presentation, we offer our congratulations to Mr. Callahan and wish him a happy birthday. Would everybody join me in singing Happy Birthday?

Mr. Barlow: After the cigars.

Mr. Chairman: Sheelagh Whittaker, would you like to set yourself down? Ms. Whittaker has a written brief that is being distributed now.

The area of media and culture is one which we are now moving into and looking into in some depth for the first time. You will notice from your agenda for the next couple of days that the next five or six presentations have to do with some of the real concerns that we expressed in our interim report with the state of media and culture if a freer trade arrangement takes place with the US.

We particularly welcome you to the committee this morning because you are going to be one of the first presenters to address this issue to us. We are hearing a lot of it, frankly, in the media and elsewhere, but a lot of our activity and time has been concentrated on talking to economists, so this is going to be an interesting diversion. Welcome.

SHEELAGH WHITTAKER

Ms. Whittaker: Thank you. It is refreshing for the Canadian Broadcasting Corp. to have an opportunity to talk about something other than cutbacks or management crises.

Mr. Barlow: Exactly.

Ms. Whittaker: As is indicated by the title on my speaking notes, Free Trade and Broadcasting: The American View and Canadian Realities, what I would like to do today is talk about what is at issue here in broadcasting from the American perspective and from our perspective, because in this particular circumstance you have two totally different approaches to the issue.

On the one hand, the US wants to be free to compete in world markets.

They feel that the opportunity for international business in broadcasting is where the growth in the future lies. On the other hand, in Canada, and I think this is a reflection of most broadcasters and most cultural industries, we want to be capable of competing in our own market. Everybody has aspirations to foreign markets in the longer term, but right now it is a challenge just to be able to compete well in our own market, so fundamentally you have two quite different perspectives.

Complicating this is the fact that we are increasingly getting signals from the Americans that they think we are using culture as a pretext for barriers to trade. Because of the nature of their culture and because of the inherent strength and natural domination of a nation of that size, they do not understand when we talk about things like cultural sovereignty or Canadian programming. They do not really understand what we are talking about and some of them are beginning to feel that it is really an excuse for maintaining what they consider to be high barriers to trade.

11:20 a.m.

In this regard, I have brought along quite an interesting document. It comes out of a document that was prepared for the Office of the United States Trade Representative by a subcommittee that was assigned to report on trade problems in the motion picture, television, recorded entertainment, publishing and advertising industries. It was to reflect the problems they experienced in exporting their products and services. The original document is really quite a bit more flamboyant--

Mr. Callahan: It is much more colourful.

Ms. Whittaker: --and much more colourful.

The interesting thing is that this has the major trading partners in the world and red is indicative of a trade barrier. You can see that overall, worldwide, the Americans perceive high trade barriers in most of the countries with which they trade.

Mr. Barlow: We find red a barrier around here too.

Ms. Whittaker: Going to the copy that I have given you, I will just take a minute to explain it because I think it really is quite important. In the legend down the left, M is for motion picture and television. That is the area I am going to concentrate on. Moving down, a deep red is identified as a primary problem country and a lighter red is a secondary problem country. Looking across the Canada line, we find that right off, under copyright infringement, we are a primary problem from the perspective of American industry.

Mr. Mancini: As you go along, will you explain copyright infringement and all these other things more fully?

Ms. Whittaker: Yes, I intend to. In this regard, and I am explaining it only from the perspective--

Interjection.

Mr. Mancini: Thanks, Bob, but I want to hear it from her.

Mr. Chairman: They prefer we be more like Burma.

Ms. Whittaker: I am speaking about these subjects only from the perspective of broadcasting. In copyright infringement, what is at issue here is the cable retransmission of American broadcast signals. That is the big issue from the perspective of the US; the fact that in virtually every major centre in Canada you can receive all the American networks and the Public Broadcasting System, for which the originating stations and artists receive no money. This is a very big issue to them.

It is also an issue that we have a provision for simulcasting. The simulcasting provision in Canada is really designed to protect broacasters who have purchased Canadian rights for a program. For example, if the CBC purchases a program such as Dallas, we have bought the Canadian rights for that program. When that program comes across the border on cable retransmission of foreign networks such as CBS or NBC, we would in fact have a foreign signal competing against our rights purchase.

The simulcasting regulations that are in place in Canada are to protect the copyright holders in Canada who have purchased that by allowing them, when the program is being broadcast at the very same time, to request the cable company to put their signal in place of the signal of the foreign or US broadcaster. I do not know which American network carries Dallas, but if the American network carrying Dallas carries it at the same time as the CBC, on the cable system its signal will in effect be removed from the system or blanked out and our signal will be present on both the US channel and our channel.

Mr. Callahan: Is it scrambled?

Ms. Whittaker: No, it is just deleted and our signal is substituted. This is simulcasting. From the American perspective, simulcasting is not such a big issue, but the retransmission of their signals with no indemnification is a very big issue.

Mr. Mancini: What do they do in areas such as Windsor where we do not need cable to get Dallas? We just flick on the tube and get whatever we like.

Mr. Cordiano: You get a freebie.

Mr. Mancini: Is that part of the copyright infringement?

Ms. Whittaker: You just get it free.

Mr. Cordiano: Do not complain.

Mr. Mancini: I am just asking. I am trying to look after Windsor's future.

Mr. McFadden: What they are worried about is not getting the royalty rate. Their main complaint is that we take it off the air and retransmit it for free.

Ms. Whittaker: For free, that is their concern, and it is a big issue.

Mr. McFadden: That is a constant problem that cable has had with the rights holders of music as well. It has been a recurring problem for cable in a lot of areas, has it not?

Ms. Whittaker: Yes, it is a recurring problem. It is also a problem for Cancom, which is now creating a superstation. In the US, they deal with this kind of problem by having a copyright royalty tribunal and everybody goes and makes his case before the copyright royalty tribunal as to the indemnification he deserves for his product.

The next issue here is cultural restrictions. You will notice that they are a primary problem of the first order in this category and we are isolated in the report as being one of the biggest offenders in the world, up with countries such as France and Britain. This refers to our Canadian content restrictions, which the Canadian Radio-television and Telecommunications Commission administers.

The Canadian content restrictions require private broadcasters during the daytime to have 60 per cent Canadian content and during prime time to have 50 per cent. The CBC has a mimimum of 60 per cent in the daytime and 75 per cent in prime time. These cultural restrictions are viewed as a major tariff barrier because they restrict the potential for consumption of a foreign product. If you are required to have a certain amount of Canadian content, since there are only so many hours a day, that is construed as a restriction on the amount that can be sold into that market. That is a major issue and fairly readily understood.

It also spills into the next category, quantitative restrictions on the showing of films, television and radio programs (cultural). It is really the same issue.

To move along to prohibitions or limitations on foreign television and radio advertisements (cultural), we are a secondary problem country in this regard because we have criteria. This issue has to do with commercial acceptance and standards in advertising. We have industry-wide standards concerning certain kinds of products that are unacceptable. In particular, this relates to things such as restrictions on the advertising of spirituous liquors on televsion and on other kinds of products. It is viewed as secondary.

The next issue, and this strikes at the heart of the corporation, is the notion of government-owned or government-subsidized distribution or production systems. In the document we are referred to as "state-owned systems," which has a rather strong context. In this regard, CBC operations, TVOntario, the National Film Board, Telefilm Canada and the new Ontario initiatives to support film productions are all regarded as very high tariff barriers on which they would seek to negotiate. Canada is identified as a primary problem country in that regard.

Next we have foreign ownership restrictions. Once again we are a primary problem country. In this regard, the issue is the 20 per cent restriction on the owning of broadcasting operations in Canada. They are not allowed to be more than 20 per cent foreign owned. There is also a restriction on cross-media ownership whereby participants in some markets, say, in newspapers, cannot own television stations there as well. Both those kinds of provisions are looked at as high tariff barriers in this country.

Next is the restriction on flow of information or the transborder data flow restrictions. In the broadcasting sense, this is construed as the type of restriction the CRTC puts on the number of foreign pay services, for example, allowed to come across the border. We do not allow an unlimited flow of foreign entertainment services over our border. This makes Canada a primary problem country in that regard.

Mr. Callahan: Excuse me. Are you talking from the standpoint of television or about live entertainment?

Ms. Whittaker: I am speaking from the point of view of television. There are about 25 different entertainment services on satellites over Canada, of which right now Canadian viewers can receive, I believe, six. I am not sure on the number. We have a licensing requirement through the CRTC and we do not require everything that is available to come into our market. This is viewed as a transborder information flow restriction.

Mr. Callahan: So that I can understand it, what is the rationale for that?

11:30 a.m.

Ms. Whittaker: I cannot speak for the CRTC, but as I understand it, the rationale is to ensure that we have balance in the services available in Canada. If we had available to us an unlimited number of foreign services and a finite number of Canadian services, partly because of our own economic constraints as to how many services we can mount, the Canadian viewer would not have a balance in choice of Canadian alternatives and American alternatives. It is not balanced, but there is some desire to keep the relative level of available services in some kind of balance.

Mr. Callahan: It does not have anything to do with culture or obscenity or anything such as that?

Ms. Whittaker: It has to do with culture. It has to do with the availability of Canadian programming in the system.

Canada is identified as a primary problem country in restrictions on earnings, discriminatory taxation or limitations on rental terms and royalties. This is also a big issue. This relates to what is known in the industry as Bill C-58, but which is now section 19 of the Income Tax Act. That provision disallows the deduction of expenses for advertising in foreign media for Canadian companies. In particular, it affects the border stations in Canada. In the broadcasting sense, the border broadcasters feel very strongly about this as a very high tariff barrier. They feel very strongly that to disallow this as an income tax deduction, say, of a Toronto company that advertises on a Buffalo station, is a very unfair competitive measure.

Discriminatory customs valuation practices are identified as a secondary problem in broadcasting. It relates back to the whole issue of Bill C-58 and allowances under taxation.

In the next category, local work and local content requirements, we are identified as a primary offender. It is the whole issue of Canadian content requirements in broadcasting, both on the stations and in the system.

Finally, hiring and immigration restrictions relate to the fact that there have often been issues in the arts industry concerning allowing foreign artists, producers or organizers to be hired in preference to Canadian artists, organizers or producers.

Overall, cumulatively, out of the total possible number of situations where we could be a primary problem country, we are identified in a tariff sense as one of the major problem countries in the world.

I would like to go on to what that results in in our market. That is the next page in the series, which is entitled, "The Availability of Canadian and Foreign Programs on English-Language Television." This is from sign-on to sign-off. This is the 1984 summary, but it does not change much from year to year.

While we have an extraordinarily difficult market to penetrate, out of the available program hours on English-language television in Canada, 72 per cent were foreign in 1984, of which American were close to 71 per cent, and 28 per cent were Canadian programs. Despite a very difficult market to penetrate, 71 per cent of our market goes to US broadcast program distributors.

To look, in terms of consumption, at how much time people spend viewing the programming, while 72 per cent was foreign, we consumed only 71 per cent foreign. That means we have a very slight skew towards viewing more of the Canadian programming available. Nevertheless, it is still in rough proportion.

A reasonable question that has been asked on this subject is if you have high barriers to entry in your market, to what extent should you lower them? What is reasonable in terms of allowing foreign competition in your market in the abstract? Usually, people will say that if you allow foreign competition in 50 per cent of your market, you have quite an open and dynamic marketplace. The fact that we already have 71 per cent of our market in this regard, with high tariff barriers, raises the question of, first, how effectual they are, and, second, if we did not have them, what would be the circumstance.

The next page is interesting in terms of looking at overall audience shares in Canada. This reflects back on the issue we spoke of earlier on copyright payments.

This gives station group shares of the total audience in Canada for English-language television over a period from 1976 to 1984. You will see there are some trends. The most noticeable trend probably is that the audience share for all US stations over that period has gone from 29 per cent of all viewing up to 33 per cent of all viewing. Overall in Canada, in addition to the static information I provided, we have a long-term trend towards greater consumption of the American product.

That is a summary of the situation from the American perspective. They feel they need our market to grow and that we have high barriers, but to date they have been quite successful at penetrating this market.

On the other hand, we have the Canadian perspective. In Canada, trade issues in broadcasting involve more than dollars because the products reflect cultural identity. Although the Americans consider our trade barriers to be high, nevertheless, the impact of US broadcasting in our domestic market is extraordinarily high.

While Canadians look to taking issues in foreign markets, we find that over time, partly because of reciprocal acts against some of our measures, the US has ownership restrictions and tax penalties that are quite analogous to our own. For example, the Communications Act is legislation that prohibits broadcast licence issuance or renewal to corporations where more than 20 per cent of their stock is foreign controlled. Cable companies are an exception to the Communications Act. In fact, we have a number of strong Canadian cable companies operating in the US. However, all broadcast licence issuance is restricted to corporations there is no more than 20 per cent foreign control.

There is also a tax penalty which is analogous. It is known as mirror legislation to our C-58 measure or section 19 of the Income Tax Act. The United States Trade Act will not permit US advertisers to deduct expenditures relating to advertisements placed on Canadian media. It is really a mirror piece of legislation.

Finally, I find this one in some measure as kind of humorous but nevertheless real. The Code of Good Practices of the National Association of Broadcasters censors programming in the United States for the mass audience. A proportion of Canadian programming is found to be too controversial or, to use its words, unacceptable and too vulgar. Some of our programming is censored as being too controversial for them.

Mr. Chairman: They should have Bob White in the United States.

Mr. Callahan: Actually, there is something to be said about that. Some of the things that are shown that originate here seem to be a little more explicit than they are in some areas of US broadcasting.

Mr. Chairman: Let Ms. Whittaker finish.

Ms. Whittaker: Domestically, neither Canadian nor American trade barriers have significant impact on our exports because the Canadian ability to try to penetrate that market is modest. Take, for example, the new CBC initiative where we intend to try to export a Canadian programming service to the US. The tax penalty will impact on our ability to earn revenue there.

11:40 a.m.

The position we have taken is that this is fine. We are willing to operate in their market under their constraints if they are willing to operate in our market under our constraints. It will have an impact, but it does not have an impact that will keep us from that initiative. However, as I said at the beginning, for Canadian broadcasters the overriding need and objective remains to have the best possible access to our own market.

To get back to the market dynamics for the CBC and specifics, the last illustration I brought with me is a comparison of CBC's US program purchases to the CBC's US sales, which is on this US import-export table. You have to keep in mind that we have a minimum of 60 per cent Canadian content during the day and a minimum of 75 per cent in prime time. In fact, on English networks this year it will go to more than 80 per cent Canadian content.

If you keep in mind that we have that level of content restraint, you will see that we imported, nevertheless, $23 million worth of programming in 1984-85 from the US, while the US purchased from us just under $2 million. Since our own import-export equation is operating under all the constraints of being a state-owned organization, all of the foregoing still reflects quite a serious imbalance in trade.

Mr. Morin-Strom: A press wire this morning made an announcement that the US Finance Committee will be rejecting President Reagan's request to open free trade talks with Canada. Robert Packwood of Oregon said there is little Reagan can do to change the committee.

Mr. Chairman: That was a hearing which I understand started this morning and was completed this morning. Their hearings are not quite as extensive as ours.

Mr. Callahan: Send them the bill for all this week.

Mr. Mackenzie: They are getting some of the dissent that we suggested and some of the things we should have been working on very hard in this committee.

Mr. Chairman: I must admit I am very surprised to hear that because that was not the information we were being given.

Mr. McFadden: I do not think that is good news for Canada. In a sense, it means we are in more trouble than we thought with the Americans. Chemical producers and others who have been worried about protectionist legislation probably have more reason to worry now than they had before.

Mr. Cordiano: The ultimate goal is not attractive to the Americans in one way or another. Trade discussions have to go on in some shape or form. You can disagree on their shape, but they are not even willing to sit down and look at some of the problems we are having.

Mr. Chairman: Obviously, it is food for a great deal of discussion. I think we are all a little shocked to hear that, but we do have a witness before us; so perhaps we should concentrate on questioning her. Mr. Cordiano.

Mr. Cordiano: I will pass for now.

Mr. Callahan: On the final item you gave us, the comparison of CBC-US program purchases to sales, I may be wrong in interpreting that, but is any free trade arrangement going to change that? Is that not a reflection of what we have to sell or what we have to buy?

Ms. Whittaker: A free trade arrangement will not make any difference. It will not improve our balance of trade.

Mr. Callahan: What it really means is that is what we have that we are able to export, but it will have no effect whatsoever.

Ms. Whittaker: The constraints we face in the US market are mostly structural constraints. They have to do with the distribution system, with the star system and with the makeup of the industry. No free trade negotiation can ever impact on the structure of an industry because it is the way the industry has developed to compete.

The Canadian problem is not with any barriers that they have to entry in a sense of official trade barriers, tariff or nontariff. The problem for us is that we cannot penetrate the structure of their industry. That cannot change on the basis of negotiation.

Mr. Callahan: As technology advances, particularly with satellites, let us say the news that we have just got now is true and there are going to be no further talks. We still have the ability to infiltrate the US market by reason of satellites and discs. There is nothing to prevent that, is there?

Ms. Whittaker: There is nothing to prevent our trying.

Mr. Chairman: Radio Free Canada.

Mr. Callahan: Looking at it from the standpoint that that is the route you have to go, I would imagine that technology is going to have no

barriers on whether the US infiltrates us that way or whether we infiltrate them that way and get our markets through that technique.

Ms. Whittaker: Certainly, for example, the Canadian Broadcasting Corp. and American service--that is not going to be the official name of it--but the service we intend to direct towards the market that is going to be purely Canadian programming is an example of what you are talking about. We are going to put on a satellite, probably from Windsor, a Canadian programming service in the interests of penetrating that market with what is really alternative programming for them and hope to be commercially successful in doing it.

Mr. Callahan: Do you have to pay them to do that? Are there any rules of the game, at the moment anyway, in terms of our beaming things to them and their beaming things to us?

Ms. Whittaker: The constraints are really the advertising constraints that anyone who advertises on our service will not be able to deduct it from his income tax. Another constraint is the capacity of cable systems and cable operators' evaluation of how attractive the programming service is, which is, there again, a structural issue. It is not a trade issue; it is a marketplace issue.

Mr. Cordiano: As a supplementary, I just wanted clarification on this. When you have American programs on CBC and there are Canadian advertisements, that is tax deductible, is it not? Let us say a Canadian company advertises on a show like Dallas.

Ms. Whittaker: In Canada?

Mr. Cordiano: Yes.

Ms. Whittaker: Yes, that is tax deductible.

Mr. Cordiano: What would be the problem in doing the same thing in the US market?

Ms. Whittaker: If a Canadian company advertises on a CBC channel into the US, that would be tax deductible in Canada; but if an American company advertises on the CBC channel in the US, that would not be tax deductible in the US.

Mr. Callahan: I think you misunderstood.

Mr. Cordiano: Okay. Yes, it has to go through an American network to be tax deductible. I am trying to get to where the barrier is. I can see that if you are broadcasting into the US directly from Canada and you are going through an American network, then it would be tax deductible. That is what you are saying. I am trying to mirror that--

Ms. Whittaker: A Canadian company going through an American network?

Mr. Cordiano: No, I am saying an American advertiser--

Ms. Whittaker: Going through an American network.

Mr. Cordiano: --for a CBC program.

Ms. Whittaker: But it is on an American network; they have purchased it.

Mr. Cordiano: Exactly.

Ms. Whittaker: Then it is tax deductible, yes.

Mr. Cordiano: You are not going to that approach, though. You are transmitting directly into the US market, as, for example, the Public Broadcasting Service transmits directly into our market.

Ms. Whittaker: Take Buffalo, for example. A Buffalo station transmits directly into our market over the air and by cable. If a Canadian company advertises on a Buffalo station, it is not tax deductible.

Mr. Cordiano: Okay, so the same rules apply.

Ms. Whittaker: Yes, the same rule applies to us in turn. It is a mirror legislation. They developed it, as I understand it, in response to our legislation.

Mr. Cordiano: Could you not transmit via another network so we pick up American shows on Canadian stations?

Ms. Whittaker: We are investigating different methods of distribution. The service has not been launched. We are investigating different methods of distribution that might be more effective in penetrating that market.

Mr. Cordiano: Okay. Thank you.

Mr. Callahan: Just to follow up on that, I gather that obviously the essential item you need is advertising. You can beam all you like, and if you cannot get the advertising and it is not given treatment of deductibility, then it makes the whole exercise kind of useless.

Ms. Whittaker: Yes.

Mr. Chairman: So you are benefiting.

11:50 a.m.

Ms. Whittaker: It would then really not be a justifiable initiative. Our intention is to earn advertising revenue to develop more Canadian programming, so that the intention is to create Canadian benefit out of the service, to call back any revenue earned into more Canadian production and thereby make the service stronger both domestically and as a revenue base--a circular situation.

Mr. McFadden: I would just like to review some background here and so on. I will start by dealing with your point on the rebroadcast by cable operators. I have done work for music writers, producers and so on, and the cable industry has had a free ride on a lot of things for a while at the expense of various people. One of the things it strikes me that might be of help to the Canadian Broadcasting Corp., CTV and Global Television could be the requirement that a royalty be paid by cable operators to the American station. That would tend to discourage the carrying of those signals in the sense that there would then be a positive benefit for the carrying of Canadian signals. Would that not be a possible way to approach this?

Ms. Whittaker: That is a possibility, yes.

Mr. McFadden: Does the CBC have a view on that one way or the other, or am I putting you in a bad spot?

Ms. Whittaker: You are putting me in a bad spot, but the CBC has a strongly held view about copyright, that people deserve copyright payments for artistic material, intellectual property and performances, and we pay all our actors, producers, writers and everyone copyright. We feel strongly that the support of any artistic community relies on that, that it is property. We do have a strongly held view on the legitimacy of copyright.

Mr. McFadden: I think it is a worldwide problem for anybody who is creating anything today, right from music through to software. It is a recurring problem.

With regard to the programming, either cable or off the air, that Canadians are consuming, the figure we have here is that 29 per cent of Canadian viewers in both prime time and past prime time into the night--I guess all day long, from 6 a.m. to 2 a.m.; there is not much left. You have the Barrie all-night movies, I guess.

Mr. Callahan: Peterborough.

Mr. McFadden: The only thing we have left out is Peterborough. Does Peterborough have all-night movies?

Anyway, 29 per cent of the English viewing audience is looking at Canadian programming. Could you give us some information about what kind of programming is in that 29 per cent? I am assuming it is predominantly news and sports, but maybe that is a fallacious assumption.

Ms. Whittaker: No, it is news and information programming predominantly, and some sports. There is virtually no entertainment or drama; it is minuscule. It is a real bias towards news programs, documentary programs--

Mr. Chairman: As a supplementary to that, has that figure changed in the last 10 years?

Ms. Whittaker: Yes, it has gone down. If you look at the next page, while it is not perfectly analogous, it is audience shares by station types. It is not perfectly analogous because CTV has foreign programming, and other Canadian stations have foreign programming; so does CBC in certain circumstances. But if you look at the trend line you will see that pure American station consumption is going up.

Mr. Chairman: That is audience. On that chart you are also talking about what people are actually watching as opposed to what is on the air.

Ms. Whittaker: Yes, it is consumption. It is what people are consuming year over year.

Mr. Callahan: May I have a supplementary with reference to that particular issue? I hope it is supplementary, anyway. I am not quite clear on what the CBC's position is before this committee, whether you are in favour of negotiations, assuming they take place, or whether you are against them. I do not say this in a negative fashion, but it seems as though the figures of CTV,

which is privately owned, versus those of CBC, which, according to the US, is state owned, indicate a larger share of the market--maybe it is not escalating. When you look at the question I asked you about the final item, which is whether free trade would assist the export that you currently have, how would free trade help the CBC? I would think it would hurt it.

Ms. Whittaker: My intention here today primarily is to be informative in explaining the issues from the American perspective and the issues from our perspective. I suppose the conclusion you can draw is what I suggested earlier, which is that with apparently high tariff barriers, we are not successful in protecting this market. Therefore, if we had no tariff barriers, which would be the implications of free trade, what would be the likely outcome? One would presume that the likely outcome certainly would not be that we would have less foreign programming, that the proportion of consumption would not go down from 71 per cent; that would seem highly unlikely. In all likelihood, in fact, the penetration would go up.

Mr. Callahan: That is assuming that the content--it appears that we have not been able to infiltrate the US market effectively--becomes very much more significant.

Ms. Whittaker: No. If we negotiated away our nontariff barriers--for example, the Canadian content restrictions--then the requirement for both the CBC and the private broadcasters to have a level of Canadian content in prime time would presumably go away.

Mr. Callahan: That could be done without the necessity for any type of bilateral agreement.

Ms. Whittaker: Yes, it could.

Mr. McFadden: That was not a supplementary.

Interjections.

Mr. McFadden: I wonder whether I could get back to what I was trying to get at here. There are two questions I would like to ask you. One is in areas where we have variety programming and/or drama up against American programming on other networks, what has been the pattern with regard to the viewing audience? I know at news times we are very competitive with regard to watching CBC, CTV or Global cumulatively. I know that CBC has the biggest audience of that group. If we can deal just with variety and/or drama, I know, for instance, that on Friday night you have Tommy Hunter up against whoever else is on the other networks. How are we doing head on head in competition between American shows and Canadian-produced shows? What has been the experience?

Ms. Whittaker: It depends on the night and on the overall pattern of the schedule. Take, for example, Sunday night, which is a very competitive entertainment night. CBC did Anne of Green Gables on a Sunday and a Monday night. We had the highest ratings. I believe that 5.8 million people watched the second night and close to 5 million watched the first night. It was extraordinary.

On the other hand, there are nights when we program a good, solid Canadian drama and there is a US mini-series up against it, and we do not get such good audiences. It varies, but I think the Canadian drama on, say, Sunday nights holds its own very well. We spend a lot of money on it. Production

values are important in television, and production values involve increased investment. Our Sunday night programming is good, high, Canadian production value programming. However, not only is that being provided by state-owned organizations, in the parlance, but it has also been tremendously assisted by Telefilm Canada, which is getting other state support devices for Canadian program production. With those devices we are holding our own well.

12 noon

Take Thursday night, which is primarily oriented towards Canadian cultural programming. You anticipate that you will not have mass shares when you are putting on the Shaw Festival or Stratford. They appeal to a narrower range of taste. If you look at the ratings on those nights, we do not do very well at all. The American programming is much more successful on those nights. On the nights when we program American programming, such as Dallas, which is Friday night, we are very successful.

We are getting into the game of programming here, and the essence of successful programming is spending a lot of money to get good writers, good set designers and big-name artists. The Canadian market has a hard time sustaining very much of that, especially without help from the various government agencies, granting agencies, the National Film Board, Telefilm Canada, TVOntario and the like, because we have a much smaller market in which to produce these equally costly shows.

The problem is that there is no economy of scale in the quality of television production, especially in a country such as ours, which is immediately adjacent to a country that has a very high production value of programs. We cannot have a poorer quality of program, because everybody can see the highest quality of programming coming in from the foreign services, from the American networks.

Mr. McFadden: It seems that what you have is a situation where the Canadian programming--the Shaw Festival, Stratford and others--is aimed at a narrow audience. You are going to expect a smaller audience.

Ms. Whittaker: Yes.

Mr. McFadden: Your high-quality shows, like Anne of Green Gables, attract a big audience.

Ms. Whittaker: Yes.

Mr. McFadden: One of the criticisms I have received from constituents and others, let alone people in the industry, is that you are not going to attract a large Canadian audience with poor production values. Very clearly, if you are going to have any hope, first, of interesting a Canadian audience, but second, of exporting, whether to the United States, Australia, England or anywhere else, the production value is going to have to be comparable to what those audiences get in their home country. One of the things that struck me is that the export record is quite modest at this time.

Ms. Whittaker: Yes, it is very modest.

Mr. McFadden: Can you tell me what the trend on that has been during the last number of years? Has it been a static situation? Do you have any idea? Have things have been getting better or getting worse during the past 10 years?

Ms. Whittaker: They have been getting better, but it is still modest. Take, for example, a major success such as Anne of Green Gables. In order to get the high production values, it was co-produced with the Public Broadcasting Service, so that there is no potential there for an export sale because PBS already holds the US rights.

For high-production-value shows, co-production is increasing. More and more you will have situations where you do not have export potential because France, Britain, PBS or someone has co-operated with you and made the show so that there is no export potential there.

As I mentioned earlier, we also have a problem in exports because our stars are less familiar, our culture is less familiar. As well, because we have a spillover into the northeastern border states, they see some of our programming already; therefore, why would they want to buy it? In some of the high-density areas in the northeastern United States where people live, many of them have access to the programming across the border, so that it is not first run when it goes into that market. Therefore, the trend is modest and it will stay that way for a while, I think.

Mr. McFadden: One final question I have relates to the superstation out of Windsor. It strikes me that it is a typical Canadian response to Ted Turner of Atlanta, Georgia, whereby we are going to beam and get carried all over the place. Is our anticipation that the superstation will be a money-maker, that it will develop a real North American presence of Canadian culture? What is the real objective there, in your view?

Ms. Whittaker: It has a number of objectives. It has the objective of making money because we want to have money to put into more Canadian programming. It also has the objective of trying to overcome some of the existing trade barriers I mentioned. For example, it has the objective of exposing our stars to that market, no matter what level, so that in the future our products are more saleable in that market. It has the objective of exposing our culture to that market so they understand what we are talking about when we say we care about maintaining Canadian culture, so that they have a notion of a culture that is very similar, but has some unique characteristics.

It has the objective of not only earning money for us but also for our artistic community because we will have to buy North American rights for every program we put on the Superchannel. It also has the objective of trying to get our state-owned enterprises, such as the Canadian Broadcasting Corp., to work in partnership with other networks and program producers in Canada to pool all the first-class Canadian programming that is available in the market now and put it all together. We hope it will not be an exclusively CBC program-produced channel. We also hope to get Global, CTV, and TVOntario--we are hoping to get knowledge and access from all of those--to participate too to provide programming and thereby share in the benefits and also get the exposure.

We are hoping it will have all those elements, but it is our response to the balance of trade. Right now, the Arts and Entertainment network is available by satellite. The national network was, but I am not sure if it is now. Anyway, we have all their programming trade right now coming off the satellite and we are going to trade back.

Mr. McFadden: I thought it was a great idea. It is the kind of aggressive competition we need in North America from Canada. The CBC is to be

commended for going out and really pushing aggressively into entering the North American market in that fashion.

Ms. Whittaker: Thank you.

Mr. McFadden: I hope it works well. All the networks should participate because I think that is a Canadian enterprise. It is not just related to the CBC network. Surely it should be part of the Canadian enterprise.

Ms. Whittaker: So do we. We also need their programming because it takes a lot of programming to fill a whole channel with Canadian-only programming. We want them to participate, but we also need them.

Mr. McFadden: That is great.

Mr. Cordiano: Going back to this chart where you have the availability of Canadian and foreign programs, I believe the 28 per cent is your market share for all Canadian programs.

Ms. Whittaker: Yes.

Mr. Cordiano: What makes up that 28 per cent? You referred to it earlier, but I did not quite--

Ms. Whittaker: On the availability side, what makes up that 28 per cent is programs such as the news, the Journal, the Fifth Estate, W5 and Canada AM.

Mr. Cordiano: This is only for the CBC?

Ms. Whittaker: No, this is for all networks. That is why I mentioned some CTV shows and some--

Mr. Cordiano: There is very little entertainment in that 28 per cent.

Ms. Whittaker: There is very little entertainment programming. There is the entertainment programming that is becoming increasingly available from the private sector as well, but it is still a very small proportion.

Mr. Cordiano: That begs the question of what people are tuning into. Obviously they are watching American entertainment, which is American culture. What do we have left as far as Canadian culture is concerned that people are watching?

Ms. Whittaker: Barbara Frum.

Mr. Cordiano: That really is a major concern. If we are saying we are going to try to protect our cultural identity and we have not even--

Ms. Whittaker: It is an important issue. That is why measures that are so much criticized by the United States, such as Telephone Canada, are important because we will not have much entertainment unless we have those kinds of measures, such as Canadian-content restrictions and Bill C-58, which protect our advertising revenues.

Mr. Cordiano: With this whole question of trade negotiations--

Mr. Mackenzie: How do you get around that, (inaudible) your arguments all the time.

Interjections.

12:10 p.m.

Mr. Cordiano: I am wondering what we are protecting.

Ms. Whittaker: We are protecting the 28 per cent.

Mr. Cordiano: We are protecting the 28 per cent which in terms of cultural--

Ms. Whittaker: Yes, which is a pretty (inaudible) job of protection.

Mr. Cordiano: In terms of cultural identity, such as Hockey Night in Canada, the Canadian Football League and--

Ms. Whittaker: News and current affairs are a really vital part of cultural identity. They are the bedrock of cultural identity. I do not think you should discount this 28 per cent.

Mr. Cordiano: I am not discounting it. I am just saying that in terms of programming that is geared to entertainment, which really identifies culture--

Ms. Whittaker: We could use more of it.

Mr. Cordiano: Sure.

Ms. Whittaker: The point you are making is that we have all these barriers and we have still been pretty ineffectual in protecting our entertainment programs. I think you are right.

Mr. Mackenzie: What happens when they are removed?

Ms. Whittaker: Maybe nothing. Maybe they have been totally ineffective and it will not get any worse.

Interjection.

Mr. Cordiano: That is true. People want to be informed. They are going to look at Canadian news broadcasting because they can pick that up now as it is from American channels, but there is a serious problem in the sense that without the free-trade arguments that are taking place right now in this whole discussion or negotiations, we have problems with it as it is.

Ms. Whittaker: It is lucky because of the notice that came out halfway through the session here. In many ways, it is an issue that transcends free trade. It is an issue of trade and balance. It is what is happening in our market under any free trade terms and conditions, under high barriers and under higher barriers.

Mr. Cordiano: Given that, what would you like to see in this whole discussion of free trade, freer trade or whatever you want to term it as? What would your position be? I know you have been asked that question earlier.

Ms. Whittaker: As a state-owned corporation, it is not a good idea for us to have a strong position on what we would like to have happen in terms of free trade or not free trade, but we do have a strong position with respect to broadcasters being capable of competing in their own markets. We have a strong position about being able to play a major role in our own market.

Mr. Chairman: Supplementary to Mr. Cordiano's question, and you may not feel you can answer this, I do not know, but is it not the case that the music industry has benefited fairly substantially from the Canadian content rules on airplay on radio?

Ms. Whittaker: I understand perhaps they have benefited.

Mr. Chairman: A lot of Canadian rock groups--perhaps Mr. McFadden may know more about rock groups, but are they not doing fairly well as a result of that? I know they all love the federal Liberals.

Mr. McFadden: I think what happened is that the Canadian performers and studios have definitely benefited from it, but we do not have a Canadian record company that is of anything other than very small significance. The one area that was supposed to be developed, namely the record companies, never got anywhere and there are none to speak of, but the performers have benefited tremendously. Virtually every one of them is now recording for American labels with the odd exception. All the household names are recording for American labels. The original intention was to develop Canadian labels, which failed to develop. There are various reasons for that, but that is the situation with them.

Mr. Chairman: We did the research and development and then they went to United States.

Mr. McFadden: That is right because they--

Interjections.

Mr. McFadden: What they failed to develop were world-scale recording companies that could penetrate the American and other markets through joint ventures or anything else. That truncated the whole industry.

Mr. Callahan: I have a supplementary on that.

Mr. Chairman: Then it is your turn.

Mr. Callahan: Is it my turn? All right. Even if we get into free trade discussions and this happens to become one of the items on the table, what controls do you have at present over what is happening?

For instance, there is a series that came out in the United States on CBS opposite Johnny Carson called Night Heat. It is a Canadian-developed series which apparently is doing quite well. Then what happened was the CTV Television Network Ltd. bought the rights back to distribute it here in Canada. I do not know whether it bought the right to distribute it in Canada from CBS or whether it bought it from the original producer. How do you stop that?

Obviously, the producer is going to go to the largest market to sell the product, and we are going to wind up buying back our own product. I find it really interesting because that series, as are many, to a large extent was

created by investment of Canadians. I suppose they are also interested in finding the largest market for the greatest return on their investment. How do you stop that?

That was a series that, had it been picked up immediately by the Canadian Broadcasting Corp. or CTV, was one that could have penetrated the US market very effectively, almost as significantly as something such as Dallas or one of the larger series that are going, Hill Street Blues.

Ms. Whittaker: You do not want to stop Canadian performers, talent and the like from having a chance at the big market. It is not in anybody's interest to constrain people's opportunities. However, I think what we want to do is to ensure that there continues to be an atmosphere here in Canada in which they can at least develop to a point where they are attracting other markets. No producer produces a winning show the first time. He has to have a sort of nursery where he builds up his skills, learns how to put things together, knows how to attract talent and knows how to get financing.

In a way, what we have to worry about is that we do not lose that base in Canada that gives our performers, writers and the like enough experience and exposure to be attractive in other markets. I do not think it would be in anybody's interest to constrain the talent from going elsewhere. It would be in nobody's interest for us not to have sufficient industry here. If there is not an industry here, the talent will not develop. There is quite a clear relationship between Toronto film development and the period of time when we had a tax provision that enabled people to do advanced write-offs on their taxes if they invested in Canadian-produced films.

Mr. Callahan: We still have that.

Ms. Whittaker: I think it has been discontinued now.

Mr. Callahan: No, it is still there, in a very substantial way too.

I guess the gist of the question I was asking you was, is there not within CBC, most specifically, because it is taxpayer-supported, a mechanism through which someone in your organization would--it would have to be a real movie buff, I guess--would view all the--

Mr. McFadden: Elwy Yost.

Mr. Callahan: That is a good idea--would view all the potential films?

Ms. Whittaker: In fact, there is hardly a project initiated anywhere in Canada that either CBC or CTV is not approached early on or are not exposed or do not know exactly what is going on.

Mr. Callahan: Then I cannot see how after being rejected by CBC or CTV it would have been sent to the United States and have such success. The important thing about it too, as I recall seeing it, is that it reflects a good deal of the culture of Canadians. It is filmed right here in Toronto, if I am not mistaken.

Ms. Whittaker: I think it is. It is a CTV program, so I cannot speak with much authority about it.

12:20 p.m.

Mr. Callahan: CTV bought rights after CBS had run it first opposite Johnny Carson, if you can believe it. They must have had some significant feelings that it was going to be a success to do that, yet we lost it. We bypassed it.

Mr. McFadden: Sometimes Canadians make bad judgements.

Mr. Morin-Strom: Maybe that is why we have only 28 per cent of the market.

Mr. Callahan: That is exactly the point I am getting to. The reason for my point is that if we do not have the ability to pick up on those things that could increase the market, how is a bilateral agreement with the US going to help us? I think it will hurt us, particularly with the CBC, because of the talk about subsidies. The US is talking about anything that is subsidized.

Ms. Whittaker: If you took the notion of free trade to its ultimate conclusion and what might be negotiated away, you would negotiate away CBC, TVOntario and Telefilm Canada.

Mr. Callahan: And have them begging like they are on the PBS for the US to get any public broadcasting views across.

Ms. Whittaker: Yes, and that is boring programming.

Mr. Callahan: I like PBS.

Ms. Whittaker: You like the begging?

Mr. Callahan: I like the little blonde girl who comes on and begs.

Mr. Chairman: Mr. Morin-Strom.

Mr. Callahan: Have you got another announcement for us?

Mr. Morin-Strom: No. You are involved, obviously, with our failure to get more than 28 per cent of even the Canadian market. It would appear that those barriers we put in place have not been successful.

Ms. Whittaker: That is true.

Mr. Morin-Strom: One of the conclusions may be they are the wrong types of barriers and we should have done something else--

Ms. Whittaker: That is possible.

Mr. Morin-Strom: --to better protect the Canadian market.

Ms. Whittaker: Maybe without them we would have zero. That is another possible conclusion, that they have been extraordinarily successful to have captured 28 per cent of the market for us.

Mr. Morin-Strom: Should the government be looking at other barriers or incentives which would result in Canada getting a larger share of its own market?

Mr. Callahan: Take a couple of channels off the television.

Mr. Morin-Strom: I suppose one obvious one is to restrict the amount of American programming on Canadian stations.

Ms. Whittaker: If we got into a protectionist mood, there are things we could do. We could increase Canadian content requirements. We could increase the Canadian content requirement in prime time to 80 or 85 per cent for all stations. We could require the Canadian Radio-television and Telecommunications Commission to change some of the regulations concerning the licensing of foreign available services.

If you wanted to get protectionist, there are certainly ways in which you could succeed. Most countries have protectionist broadcasting legislation for cultural reasons. Britain and France have quotas on the amount of foreign programming purchased and things such as that. It is quite common for people to have protectionist measures for their broadcasting systems.

Mr. Morin-Strom: What about content legislation, not so much of the content type that I think you are talking about as more the auto pact type? With those American companies that want to provide a significant share of the Canadian market, you could go to the three major ones and say, "If you are going to take a major share of our television space, you have to start producing some shows in Canada."

Ms. Whittaker: Right now, because we are in effect taking their programming for free, we have no leverage with them. Since we just retransmit via cable all the American services for free, there is no leverage. They do not care about our market. It does not give them any revenue in that regard.

Mr. Morin-Strom: I guess I am suggesting that if we had a content rule, there would be some leverage. If they wanted to show on our major networks, they would have to produce in Canada.

Mr. McFadden: Except that through a satellite they probably could get to the Canadian audience.

Mr. Morin-Strom: They can get to quite a bit of it that way.

Mr. McFadden: It is very cheap that way.

Mr. Callahan: You said they get no revenue. Even if you are picking it up by satellite, surely the people who advertise Tops Friendly Market in Buffalo, if there happened to be a Tops Friendly Market or Super Duper Markets here in Ontario, do get a benefit.

Ms. Whittaker: There are spillover benefits, but I have investigated this in other regards and, as far as I can understand, they do not sell that. It exists, but they do not sell it.

Mr. Callahan: But it must be sold. You said they get nothing from it, but when they go out to the advertisers in the US, they must tell them, "Okay, Canada is getting our beam and getting your commercial." I would think that has to be a selling feature to the advertiser.

Ms. Whittaker: I thought so too, but when I talked to them I learned that our market is too trivial to them.

Mr. Callahan: Are 25 million people trivial?

Ms. Whittaker: We are talking about five million households that they can reach, and they think it is too trivial.

Mr. Callahan: Speaking of trivial, we did well with Trivial Pursuit.

Ms. Whittaker: It makes me sound like C. D. Howe.

Mr. Callahan: That is interesting.

Mr. Morin-Strom: I have another question in a somewhat similiar vein. If you look at the US market, US production of television is very concentrated in Los Angeles, and New York secondarily. However, it would appear that it is becoming less centralized. In recent years more and more sitcoms and dramatic series have been put into cities outside of those two major centres and you see them located in San Franciso, Hawaii, Cincinnati, Boston, Chicago and Dallas. Quite a number of cities have had series located in them. I understand that production of some of those series is done heavily in those cities. Is that correct?

Ms. Whittaker: Yes.

Mr. Callahan: CBS seems to produce most of its series on a decentralized basis depending on each particular--

Ms. Whittaker: They do not produce much. They buy most of their product.

Mr. Morin-Strom: Sesame Street and Electric Company.

Ms. Whittaker: CBS purchases those, as do we, and then we do Canadian inserts.

Mr. Callahan: It appears to me that a lot of them are happening outside the two major centres.

Ms. Whittaker: Increasingly, yes.

Mr. Callahan: To your knowledge, has the CBC or CTV ever got into a discussion of joint ventures with the American networks or producers with proposals to try to locate one series aimed primarily at the US market with a Canadian locale?

Ms. Whittaker: As I mentioned earlier, we did coproduce Anne of Green Gables with PBS. It was not a series; it was just a two-part movie. That was a coproduction. We are eager to coproduce with Americans. PBS is the one that is the most likely usually to feel comfortable coproducing with us.

On the Night Heat story, because that is a CTV program, I do not know if there was ever any approach in that regard. However, it is very hard in the American system to get your series on the air. It is a funnel; a lot of programs go in and not very many come out at the end and not very many of them last very long once they come out at the end. While we are more than eager and willing to participate with them, it is very hard to get anybody who wants to take the risk of coproducing for one of the major networks with a Canadian company.

Incidentally, we have produced in Montreal, Toronto and Vancouver and we have major network production centres in those places as well as across the country, partly in the interest of disseminating the industry throughout the country rather than just having it in Toronto, Montreal or in one locale, because it is valuable to an economy to have it spread out.

Mr. Chairman: CTV does its Romper Room out of Kitchener.

Mr. Barlow: I could say something about that.

Mr. Chairman: Thank you very much.

When we were in Washington and we were being briefed by a congressional official about how the US was not at all interested in desecrating our culture, he went on at great lengths about how we could continue to speak French and do all the things that we do that are so quaint. When we got down to brass tacks and asked, "What is it you do want out of free trade?" the very first thing he said was, "We are interested in border broadcasting."

It has been extremely helpful, particularly in that you have attempted to present both sides of the picture and I do realize that in asking you to appear here it has not been an easy political task on your part to put together a brief, in view of all the various ramifications that you have to worry about. Thank you very much for coming.

Ms. Whittaker: Thank you.

The committee recessed at 12:30 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

FRIDAY, APRIL 11, 1986

Afternoon Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

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McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitutions:
Callahan, R. V. (Brampton L) for Mr. D. W. Smith
Mancini, R. (Essex South L) for Mr. Ferraro

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witness:

From Global Communications Ltd.:
Epstein, S., Chairman, Executive Committee

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Friday, April 11, 1986

The committee met at 2:06 p.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: Before we start, I tried to make some inquiries over the lunch hour about Mr. Morin-Strom's announcement. My own understanding of the situation is that there are seven members on the US Senate finance committee and apparently five of them got together last night and decided that this statement would be made. There will eventually be a vote taken at that committee which will probably be five to two. That puts a big cloud on the whole prospect of a fast-track negotiation, but it does not necessarily rule out the whole Senate deciding otherwise. We may yet see a decision on the part--

Mr. Mackenzie: What vote is required to go without the fast track?

Mr. Chairman: Without the fast track, the whole Congress does the negotiation, which would be almost impossible because every issue would have to go through Congress. With the fast track, the Congress says yes, the president comes back a year or two later and says, "This is what I have negotiated," and then they ratify it. They cannot change it in the interim.

Mr. Mackenzie: I am just trying to remember--

Mr. Chairman: I do not know the answer to your question.

Mr. Hennessy: Slow track.

Mr. Chairman: If we are on a slow track, it is game over.

Mr. Traficante: The difference between the two is that in the regular ratification procedure, negotiations might take place but the Senate and Congress have the ability to introduce amendments after the--

Mr. Mackenzie: I imagine an agreement will never get through in this type of situation.

Mr. Chairman: That is correct.

With that interesting diversion, we have with us this afternoon Seymour Epstein, chairman of the executive committee of Global Communications Ltd. Mr. Epstein was with us this morning when we were dealing with the CBC. We welcome you, sir.

Mr. Mackenzie: I do not want to interrupt Mr. Epstein but, for the record, is it possible for the committee to consider spending either the first five or 10 minutes or five or 10 minutes before we finish on Monday, discussing whether it does change any of our direction or what we should be focusing on in the committee in the next while.

Mr. Chairman: That is an excellent idea.

Mr. Hennessy: Perhaps it would be best to wait until Monday to see what the aftermath is.

Mr. Mackenzie: We have a number of options. One of them is to focus our attention on what alternatives there are.

Mr. Hennessy: I suggest we do it Monday.

Mr. Chairman: That makes sense. By Monday, the media will have told us more about what is going on in Washington today.

Welcome, Mr. Epstein.

GLOBAL COMMUNICATIONS LTD.

Mr. Epstein: Good afternoon. I am the chairman of the executive committee of Global Communications Ltd., which operates the Global Television Network in Ontario. My comments will be brief and to the point.

While the arguments pro and con regarding free trade are being made in various forums throughout the country, one major area of concern seems to have been ignored. The advertisers call it "voice," a term used by marketers to measure the effectiveness of their product advertising. It is carried with the programs that Canadians watch on US television stations and is essentially a free bonus for imported products, while Canadian suppliers are forced to pay in full for their voice.

My point is that you cannot have free trade in this country as long as US products have the tremendous advertising advantage they enjoy as a result of Canadians viewing US TV stations.

Let me explain. In 1985, 149,706,330,000 commercial television impressions--that is correct, almost 150 billion impressions--were made on Canadians by American television stations. By "impressions," advertisers mean that their commercial message was seen by a viewer. A study of these advertisements reveals that approximately 60 per cent was for products currently available in Canada, and that an additional 33 per cent was for products potentially available in Canada. In total, the value of this advertising power was approximately $800 million in 1985.

It is estimated that approximately $20-million worth of this advertising is actually paid to these US television stations by advertisers. The remaining $780 million is free. This certainly is not the "free" intended in free trade. In fact, it may be the single most compelling reason that Canada should not opt for free trade with the US. Free advertising of this magnitude creates demands that virtually dictate which consumer products Canadian food, drug and department stores stock and sell.

Put in simple terms, a Canadian product competing with an American one is put at a substantial and real disadvantage in Canada because of the free ride into almost every home in Canada its American competitor gets on TV. Small wonder that so few Canadian consumer product manufacturers have survived even in our protected markets. The worst is yet to come. The viewing by Canadians of American television stations and their commercials is growing.

In 1968, the first year for which reliable statistics are available, the

free advertising was worth $49 million. As a result of recent Canadian Radio-television and Telecommunications Commission decisions, we expect Canadian viewing of US stations to increase, and we predict that by 1987 the free bonus US products get in Canada will reach $1 billion per year in value. Even without free trade, it will become more and more difficult for Canadian consumer goods manufacturers to survive in their own market.

It might be argued that free trade will open vast US markets in the south and that Canadians will get reciprocal advertising benefits in the US. This is untrue. The viewing of Canadian television by Americans is almost unmeasurable. There is no overflow advertising from Canada to speak of, and this will not change. One recent proposal by the CBC, to have Americans watch a Canadian station, anticipates that Canadian advertisers will pay for the US audiences and not get those audiences as a free bonus, as is currently the case for American advertisers in Canada.

It is interesting that the CBC proposes to have the existing CBC-owned and operated station in Windsor drop any pretext of serving the Essex county area to become an American superstation. In spite of the fact that Windsor is a major urban market, few Canadian or US advertisers purchase television time there. The reason: Canadians in southwestern Ontario watch sufficient advertising emanating from the Detroit stations to render CBET-TV redundant in marketing terms. Is this the model for the future of all of Canada?

My message is simple. Until the Canadian public chooses not to watch American TV stations and the substantial impact of their commercials, free trade is not a realistic alternative for Canada. Even without free trade, American products are getting a huge subsidy which cannot be matched by our producers. This must be addressed by our governments as an urgent matter.

I welcome your questions.

Mr. Chairman: Thank you very much. There are some fascinating statistics there.

Mr. Callahan: That is a very good, thought-provoking presentation. It says an awful lot. I suppose it says, how can we ever expect to put our imprint on the US? They have certainly put a sasquatch print on Canada. It is probably the reason we have, in many respects, a duplication here in Canada of almost every business you see in the US: McDonald's, Arby's, etc. I imagine it has had a very significant impact on the franchising prospects and successes Americans have had in Canada.

I recognize what you are saying. It puts a considerable perspective on the question of this industry's being involved in any bilateral discussions. As you say, it may even put a damper on the whole aspect until this one is resolved, in a sense, or is resolved concurrently.

Do you see a benefit, though, from maintaining the status quo in all other areas, as opposed to some type of negotiated arrangement? Other types of advances in television, such as being able to beam off a satellite, have come so fast the rules have not been kept up to date by governments in terms of how they negotiate treaties to solve this problem. Is the status quo going to give you anything greater than you will get if you have a bilateral discussion?

Mr. Epstein: I am going to try to answer several comments you made. If I drop one, please ask me again. First, I am not suggesting we have a hopeless situation. It is true that there is, on the average, a very

substantial Canadian audience watching American television. However, if you remember, it was true that there was a very substantial Canadian radio listening audience 30 or 40 years ago. There was a time in this country when the words I used today might have been used for radio. We won that war. Canadian radio today, except for some very small exceptions, is listened to by Canadians.

I do not think we should start by giving up on television. What I was trying to say in that context is that I do not believe any government in Canada has taken the time to focus on anything to do with television, other than programming, for the past 30 years. The Fowler commission said, when it comes to television, it is programming and all the rest is housekeeping. It is true. As television broadcasters, we focus on the programming we run; our entire focus is internal and relates to our industry. However, from the perspective of governments, the impact of television advertising is far larger than the programming questions for broadcasters. My plea is that we can get more awareness of what television does to other things, not the impact on television of free trade and other competitive situations.

2:20 p.m.

You asked about the status quo. I am a very agressive person. I am not prepared to see the status quo remain. I would like to see a concerted effort on the part of governments, federal or provincial, to find out how we can address the situation, understand the hundreds of millions of dollars that are being bonused to our American competitors and start to have a policy, whether it is provincial, federal or both, that will encourage Canadians to come back. I do not want censorship, but there are many policies now emanating that are absolutely contrary to encouraging Canadians to watch Canadian stations.

With the recent developments regarding Canadian Satellite Communications Inc. and the approval of the Cancom carriage of the Detroit stations into more and more Canadian provinces--now in Saskatchewan and recently approved for Manitoba--it seems inevitable the federal goverment is going to allow the Detroit stations access to the four Atlantic provinces. We have some numbers that suggest that by next year the Detroit stations will be the largest television stations in Canada as a result of that. By three years from now, on those trends, it could very well be that the three Detroit stations would have a larger audience than the CTV or the CBC networks combined.

I am here to say please help; let us stop. We are going too fast in the wrong direction. Can we not develop policies--and I think we can--that will help us win our audiences back? If we win our audiences back and fewer Canadians are exposed, not only to the advertising but to the programming content directly, we will have a chance both to succeed in this country commercially and industrially and to develop a far better system of programming and television.

Mr. Callahan: Is there not a process--or perhaps it is prevented by governments; I do not know--whereby, for instance, when I am watching Carson, when it comes time for a commercial, they switch to Buffalo. Is that because Buffalo has bought the right to show Carson? Is that why they have the right to inject their own commercials?

Mr. Epstein: The answer to your question is this partially happens. One of the CRTC policies that has been in place since 1971 is called "simultaneous substitution." Ms. Whittaker referred to it this morning. It allows a Canadian station running the identical program in the same time

period to have its signal carried on cable on both its own normal channel and the channel that would normally carry the American station carrying the same program. The effect is that the audience is not being denied anything; it is choosing its program and getting it.

The result is double-barrelled. We are strengthening the Canadian side of the industry and we are not allowing that free bonus of advertising to come through during those programs. For a while, the Canadian government required the cable companies in Alberta to delete commercials flowing into Edmonton and Calgary on the microwave system that was first built to provide cable service of the American television networks in those cities. The cable companies were deleting commercials on a random basis. The main purpose of that was not to deal with the $800-million problem we have today but rather to deal with the $20-million problem we have today. That problem more directly affects me. That is the purchasing by Canadian advertisers of time on an American station.

It did not in any way address the big problem, the free ride. If we were to set up a system to try to remove commercials, it would be unworkable. It would be perceived by Canadians as censorship of the first order. I am not sure that the answer lies there. But amendments could be put forward with regard to, for example, the rules for simultaneous substitution that could increase the number of occasions that all Canadian broadcasters could be put into a position to reduce the overflow advertising, that free voice.

A simple example would be what we are pleading for with the CRTC at the moment. When we run an afternoon program, a rerun of a syndication of Hogan's Heroes, for example, unless the program we run is the identical episode of Hogan's Heroes, we cannot get permission to have the cable companies switch over. We have asked that any time the syndicated program is identical, whether the episode runs at the same time or not, this switching take place, since the TV Guide lists Hogan's Heroes and since the viewer does not care which order the episodes run in on something such as that. That would have a major impact in reducing the overflow. There are other examples I could give.

Mr. McFadden: I enjoyed your presentation. The statistics here are quite mind-boggling in terms of the number of impressions that were left. I have three sets of questions I would like to explore with you.

The first relates to the programming we are talking about. In regard to radio and what happened with radio in this market, I was not in Toronto back when WBEN and all those other stations had big audiences here, but my understanding is that the reason CKEY and CHUM and others developed and maintained a Canadian market was that they produced a type of programming and a promotional approach to radio--that top 40 format and so on--that brought the listeners back to Canada.

It was found that a Canadian radio station was as good to listen to as any American station. Not only that, but it had a Canadian approach to news, sports and everything else. I cannot think of any specific government regulatory things that brought the audience back to radio. I may be wrong on that, but my understanding is it was mainly a programming decision that turned that around. Am I wrong on that?

Mr. Barrington: You are absolutely correct. If you go back and look through the typical program schedule of a radio station 40 years ago, it was a medium for drama, comedy and some music. It was mostly network--we all remember the strong network programming--with some local news. That was typical right aross the United States. I am sure we all can remember some of the dramas which had tremendous followings.

You can go back as far as the Aird Royal Commission on Radio Broadcasting on the problems of north-south communications versus east-west communications. They recognized full well that we would have major problems in this country, although not with a broadcasting system. That was not the concern. The concern was the one I am trying to address today when people talk about the president: "Do you have a president in this country?" "Where is Ontario? I know where New York is." That kind of thing, as well as the advertising.

We are very concerned about strengthening and building and developing a Canadian service. The CBC was born as a result of that. Two distinct program services were born as a result of trying to win back the audiences, but the reality is, and your point is absolutely correct, it fundamentally was not a regulatory decision that changed things.

We did start to license more radio stations after the Second World War. That was a plus, but the nature of radio was changing. Radio dramas and network programmings were falling off as TV came in. Radio stations became more and more local. What was local radio? A disc jockey, a newsreader of a wire service and a lot of records. Boy, we were able to follow that format.

Even though we could follow the format, it took us about 20 years to promote ourselves into the position of making listening to US stations minute in this country. The promotional value for so many years was so strong that we automatically went back to WKBW. I am sure everybody in this room at one time or another listens to Rock 102 because it is from Buffalo. We still have that problem in this country but we have succeeded, and we done it without regulation.

I can turn the issue upside down. I am not an advocate of it, but can you all imagine the situation in this country right now if there were no regulations on television? Is that not what free trade is all about? If a Canadian broadcaster could operate under exactly the same terms and conditions as its Buffalo competitor, Global tomorrow would be an NBC affiliate running virtually 100 per cent American programming with a local or Ontario based newscast. Our programming costs would drop massively and the multiple on our earnings would go up massively. I would be a very much richer man, if I can put it that way.

2:30 p.m.

None of us seriously means when we talk about free trade that we are going to forsake everything we have tried to build in this country to be able to call it Canada. In reality, we are saying: "All right. We are going to have a system that is Canadian. We at Global do not propose dropping the content rules and changing the game like that for a bunch of reasons that are too long-winded to get into." If we are going to do that, at least let us try to be smart about how we set up the processes and what kind of regulation.

For example, you mentioned this morning something about music, copyright and retransmission rights on cable. Global strongly opposes adding another level of copyright, which Canada does not have to do under its treaties, that will require a payment through the copyright system for the use by cable companies of music or anything else for that matter.

Global would be a beneficiary of such a payment, because we are a provider of programs and services. When we look at the big picture, however, we realize that some 95 per cent of all the money that would be collected

under the copyright system would flow to the US or out of Canada. Virtually all of it goes to the US. We ask, "Why are we doing that when we are Canadians?"

Let us think about a better way of doing it. Can we do it in a manner that does not violate our treaties and still keeps the money flowing from consumer to creator? Sure. We have already done it. For example, the cable tax that exists in this country collects funds--I think it is now going to eight per cent--from the cable industry, or from the consumer if you like. That money, whether or not it can be traced through the Treasury of Canada, is used to help fund Telefilm Canada, which is probably the single best thing that the federal government has done to help develop Canadian successes and increase Canadian viewing.

Telefilm supports and underwrites Canadian productions or co-productions when distribution is arranged and these productions have started to show a significant audience in this country. That is what I call a positive regulatory activity, and I think there are lots more.

Mr. McFadden: If I could follow that one step further, the thing that the CBC spoke about this morning was the need to win back audiences to Canadian stations. It is clear that is your objective. That is the benefit of upping your rates obviously, as you have considerably more viewers.

I am curious to know how you see attracting viewers to Global. As you have said, one way is to become an affiliate of NBC, cut your costs and bring in every show easily. It seems to me that does not deal with any of the cultural concerns that have arisen in this debate. As far as I know, all the parties are agreed that one of the areas we do not want knocked over in any trade discussions with the United States is our ability to form our own cultural policy, to maintain the one we have now and to expand on it.

What do you see putting into the programming day that would attract the viewing audience so they will watch Global rather than an affiliate of the CBS, NBC or ABC?

Mr. Callahan: The great white north.

Mr. McFadden: Yes. Where is the money coming from for that? Is Global proposing a major increase in its production budget? Will that only come if we can get the advertisers to advertise and pay more money?

I am curious to know how all this is going to happen. Thus far, we have done very well on news and sports, but relatively poorly on the other types of shows that attract people to the American networks during the evening hours. We also have a couple of good game shows here, but I am curious to know what we are going to do. We have talked about Telefilm. Is that the only thing, or do you see something that Global could do that would help us out in that regard?

Mr. Epstein: I completely agree with your statement. I do not want to leave the impression with anybody that we are not interested in the cultural side of the issue. To make it clear, once again, we are not proposing becoming a NBC affiliate or dropping our Canadian content. I used that only as a simple example of what could happen.

We believe, as you do, that the fundamental cultural and identity questions cannot be put on the table. At the same time, when the government

talks about free trade, it seems to think it can put everything else on the table. Maybe we feel it more than most people because we are in a situation where we are transparent. On the one hand we are a cultural activity and on the other hand we are a very fundamental element in commerce in this country.

I look at it in the sense that if culture means programming and programming is the message, then advertising is the envelope, Before you get to the message, you have got to look at the envelope.

Mr. Callahan: Or at the stamp.

Mr. Epstein: That is what we pay the federal government. In reality, what we are trying to say is that you cannot pretend that cultural issues are not on the table. Yet we are going to have an impact on the entire economic process and on commerce in this country as massive as we are having, without looking at both issues at the same time.

You said that there were some successful Canadian shows. News is watched because it is relevant. As you probably know, Global has been slowly increasing the number of hours of news over the years and massively increasing the amount of money we are spending on it, with some success. We have some shows now outside of the news area that are attracting audiences. If I could put into focus the dollars involved, when we talk about drama, it will be easier to understand why, when we go up against Goliath, it is not that easy.

A US program such as Dallas or Dynasty is now costing for a network power about $1 million for the negative. In Canada, I expect the CBC is paying something like $75,000 for the rights to play that. In our business, we all know it is an exclusive right that the CBC acquires but does not necessarily get because of the audience that will inevitably watch CBS. When we turn around and say, "We are now going to do a drama in this country and we are going to do it well," that is totally unrealistic based on the size of our market. We must keep reminding ourselves that we have two languages and two totally different television processes as a result.

It is unrealistic to start talking about doing drama. The only way we can succeed in that area, and we are starting to have some impact, is by doing what we call in the industry co-production, where we get together, usually with an American independent producer, and agree to produce a program that has Canadian elements and American, English or whatever elements in it.

Under rules that are established both by the CRTC and the Secretary of State of Canada, we can have elements that are non-Canadian provided most of the resouces used are Canadian and most of the identifiable talent used is Canadian, and so on. By doing that, we have been able to create some shows that have an audience in Canada and are starting to find audiences in the US. In this respect, Telefilm has been a tremendous bonus, because Telefilm has provided some of the seed money necessary, along with a Global or a CTV or a CBC, and an American partner to put together some programming that is just starting to work now. We think we have a chance.

2:40 p.m.

When it comes to the bigger question of where are we heading in this country, our great concern is reaching the level of US penetration in Windsor. We are heading that way. The charts that Ms. Whittaker showed this morning indicate a steady growth of US station viewing. The Cancom issues and things like that are continuing that increase at an accelerating pace.

We are concerned about whether we are going to reach a stage where an advertiser wakes up and says: "I do not have to buy Canadian television any more. I get enough audience knowing my product by virtue of the overflow and I can save a fortune." Some 20 years ago I worked for RCA in Montreal, and that was RCA Canada's policy. It did not buy television advertising at that time because its parent company got sufficient television exposure and it was not necessary. When it wanted to put a special on and said the television set was $399 at the store or something, it took out a newspaper ad but it did not buy television.

Our concern is whether we are going to reach a stage in our country where Canada, as Sheelagh said, is trivial. That is our great fear. While on the one hand we are hopeful we can go in the direction of improving our situation, on the other hand we are very concerned that we are heading for the disaster that Windsor has suffered.

Mr. McFadden: Can I ask one final question? I hope I am not in pursuit of the trivial in this question. On page 4 in your conclusion you mentioned that "free trade is not a realistic alternative for Canada. Even without free trade, American products are getting a huge subsidy," and so on. You mentioned earlier your concern is with the consumer product business. Are you suggesting that free trade not be involved with the consumer product business, or are you bringing into this all products?

A lot of our exports to the US, for instance, that could benefit are not in any way related to consumer products. We heard this morning from the chemical manufacturers, for example, and the steel industry, the automotive industry and various services, are not driven one way or another by advertising on television. They might supply businesses in the US with steel and one thing and another and it might be advertised here and the products might come back. I am curious to know exactly what you are getting at here. Advertising is not a major player for most of the products that we are now exporting or would expect to export to the United States.

Mr. Epstein: I am very happy you asked that question. It is a point I should have recognized at the beginning. In a way, we are coming back to the fundamental questions for this province, not just for the country.

The reality is that Canada is able to export lumber, oil, cattle, wheat, minerals, etc., and we do. What we have managed to create over many years in this country, however, is a situation where the products we export have few people employed for the amount of dollars of what we export. We import the products that take a lot of labour, a lot of entrepreneurship and a lot of creativity. How can I put it? What we do in this country generally is stereotype. We take a proven US product and the American either comes here as a branch plant or licenses somebody on a royalty basis to copy it. In my view, what tends to happen as a result of this is that we are going the wrong way.

We had a discussion in Ottawa last fall with Mr. Clark and the various people who were representing what were called the cultural industries. Mr. Clark's comment at the time was, "In free trade negotiations we might pick up $1 billion or $2 billion or $3 billion worth of extra wheat sales, cattle, oil, lumber, etc." He may be right. His reaction to the cultural side was, "It is only $20 million or $30 million." This is what made me think of the greater issues of broadcasting. Unfortunately, the federal government's focus in the case of culture is only the message and not the envelope.

We are concerned that we will end up exporting these products and we

will end up importing the finished product. Someone pointed out recently that apparently we export lumber to Poland and import the clothespins that country makes from it. The problem with that is we get back to the ultimate question I think we all have, "Are we going to create jobs and increase commerce?" I think we are going the wrong way with those primary industries.

Mr. Cordiano: Talking about consumer goods, a number of subsidiaries of American firms produce consumer goods in this country, especially in the food and beverage industry. Most of these products are copies or similar versions of their American counterparts. When they advertise in the US, that obviously benefits those companies here, as you pointed out. We get back to the point David McFadden made. When we export most of our goods, no advertising is done for those goods because they are not in the consumer goods area. Therefore, there is a loss to, say, the Canadian broadcasting industry because it is not getting anything out of it.

Mr. Epstein: We would not get anything out of it anyway. The issue we are talking about does not impact on the Canadian broadcasting industry in any significant way. I agree with you that multinationals such as Coca-Cola, Gillette, any of those companies, operate Canadian companies that are subsidiaries or do licensed activities. They employ Canadians generally for the Canadian market. The position in which we are put is that basically most of the profitability, whether through royalties, management charges or otherwise, flows back to the US. The opportunity to have a winner, a stereotype concept, a new idea develop in this country and conquer the world is virtually nil.

Mr. Cordiano: It is very difficult in the consumer goods area.

Mr. Epstein: This is precisely the area this province should be fundamentally interested in and it is precisely the area that has a high degree of labour content. If we want to be hewers of whatever, we can provide the raw materials for the industrialized American activity and be able to export our natural resources. Unfortunately, that is what we have been doing and what we might be doing in ever bigger amounts in the future.

Mr. Cordiano: You seem to be saying that the broadcasting industry quite naturally has suffered in the past because we do not have the kinds of industries that would enable you to benefit from the advertising they would do.

Mr. Epstein: No, I may have misspoken. I am not here to make a case for the beleaguered, failing broadcasters. Global, I might add, is doing very well for itself. The point I am trying to make is that hidden damage is being done to industrial manufacturing activity in this country that absolutely nobody talks about. In our business, we have to talk about programming. Every time we turn our heads somewhere else they say, "That is housekeeping," so we focus on programming. When I spoke to the Canadian Manufacturers' Association about this in 1972, it thought about it for a while and came back and said: "We do not think we should say very much because most of our members are multinationals. They would not like it if we suggested we wanted to develop our own products in our own companies." Who is going to speak for the people who do not yet have an organization and who are doing the prototype and creative work in developing a product we can export?

Mr. Cordiano: However, it is true. Any way you look at it, that is a symptom of the kind of economy we have.

Mr. Epstein: Sure.

Mr. Cordiano: It is spilling over into the broadcasting industry.

2:50 p.m.

Mr. Epstein: I mentioned in the little paper you have in front of you that approximately 35 per cent of the overflow advertising, this voice, is for products not sold in Canada. However, what we said was "not yet sold in Canada." There are many products in the United States for which it is not quite profitable enough to step into Canada and open up an operation. To know the impact of that, I remember when Budweiser was launched in Ontario. Budweiser's advertising was worthless in Canada for years, until the day it started the tap flowing here. Then it was number one as a product in this province.

Mr. Mancini: They had a good product.

Mr. Epstein: They had a good product and it was well-known.

Mr. Callahan: They had a lot of free advertising.

Mr. Epstein: If you and I had a better product and we tried to launch our product, getting shelf space would be impossible. Whether it is the Liquor Control Board of Ontario or the brewery co-op's great retail stores, the first thing the distributor will say is, "How much advertising are you going to spend to back this new product?" We will say, "We do not have much money right now, but when we are successful we will do something."

Mr. Callahan: Budweiser also created a market. They went out to test to see whether there was a market before they came in and set up the arrangements. They had a free ride or an impact from that.

Mr. Cordiano: This free ride is the whole question we are talking about. It has a tremendous impact.

Mr. Epstein: For the 33 or 35 per cent of the products that are not yet in Canada, I know what I am going to do. I am going to go to the United States with a list of all the major advertisers that are not selling in this country. I will see how many of these products I can license for Canada. If I can bring them into Toronto and the rest of the country and sell them, and if I do not have to buy advertising but the Canadian guy who is trying to compete with me does, I will knock him out of the business. That is our problem.

Mr. Morin-Strom: May I have a supplementary on this?

Mr. Chairman: It is Mr. McFadden's question.

Mr. Cordiano: He has gone.

Mr. Morin-Strom: You are getting at a new point that perhaps we have not thought about clearly enough, not on the broadcasting side but on the fundamental issue of why we are competitive in the resource sector and the commodity goods sector, but have always, and certainly recently, had a tremendous trade disadvantage in the finished goods area. Undoubtedly, there is this whole issue of advertising, and as you have said, the free advertising the major US producers are getting. I suppose you are saying that a Canadian firm that wanted to compete with Coke and Pepsi in the soft drink business could not do so because of the tremendous amount of advertising that has been done for those products over the years.

If a Canadian company suddenly wanted to produce hair spray or toothpaste, there are the established positions of Colgate-Palmolive and Procter and Gamble as big powers in the whole consumer household goods area. When they develop a new product for the US market and advertise it in the US, with their kind of backing they have such a competitive edge that it is going to be virtually impossible for any Canadian industry to build up in those areas.

Even if we go to complete free trade, how on earth will a Canadian firm ever be able to build the size and scale of operation to be able to compete on an equal basis in the consumer goods market area, which as you know is a more job-intensive area and which we are supposed to be getting an opportunity at cracking through free trade. Is where I am going the type of point you are trying to make?

Mr. Epstein: Yes, sir. The power of this is so incredible. If you had a multinational advertiser, and I use that term because most of the American-based advertisers and manufacturers knew a long time ago that it is better to be to be multinational than to be American, the multinational advertiser would say to you, "What Mr. Epstein is saying has some truth, but we would rather not have the overflow." Let me tell you why. For example, when Gillette introduced the Trac II blade in the US, it had made a deal and opened a plant to manufacture Atra. I may be off here, but I think the plant was in New Brunswick. Its marketing plan in Canada was to market Atra aggressively and hold off the introduction of Trac II. As soon as Trac II advertising started, all the druggists in the country were screaming at the distributors: "My customers think I do not have the latest product. You have to get me Trac II." Even Gillette found itself caught in the dilemma of this overflow advertising.

Believe it or not, Coca-Cola did not intend to introduce Classic Coke in Canada mainly because, if the secret is known, the old Coke in Canada was far sweeter than the American drink. The new Coke in Canada was hardly changed and it was working very well. What happened was that when Classic Coke was brought back in the United States, the stores all said: "I have to have Classic Coke. People want to try it." Coca-Cola got messed up.

A few weeks ago, Kodak lost a lawsuit to Polaroid. It was a major front-page story. Kodak had to credit all its customers; it can no longer sell its instant camera. Kodak said, "Bring the camera in and among other choices you can get a share of Kodak stock." At that time, the stock was $48 and it is now about $60. The camera was selling for $29.95 in the United States. The return of the cameras was enormous. People ran into the camera stores and bought them to get shares. In the meantime, Kodak Canada had planned a $400,000 advertising campaign for the Canadian solution, which I believe was a Canadian $60 certificate towards Kodak film and products. Am I wrong?

Mr. Callahan: Was it not a share in Minaki Lodge?

Mr. Epstein: That could be. In any event, the pressure on the Kodak distribution chains in Canada was so enormous that they immediately cancelled their advertising budget. They said: "This is crazy. We cannot compete with the advertising overflow." Secondly, Canadians were demanding a share of Kodak, which at that point had started to go up on takeover rumours and what not. Kodak was not allowed to do so in Canada without the approval of the securities commission.

When I say this and when I talk about value, I want to caution everybody

that I am not suggesting some secret plan. I am suggesting the result is there. It is not an organized, invisible activity that certain people have done to us. For the first time, we are starting to get some response in various forms to banging our head against the wall on this issue. I think a lot of people are beginning to realize, "Holy smoke, if we are going to succeed here, we have to get the heart, the mind and the sight of Canadians on our products and our goods." How can we change our policies and regulations to do so without censorship? It is not an easy question to answer, but it is one we should at least be asking.

Mr. Mancini: Mr. Epstein, how long have you had a licence to serve Windsor?

Mr. Epstein: Since 1972.

Mr. Mancini: How long has it been since you have served Windsor?

Mr. Epstein: Since August 28, 1978.

Mr. Mancini: Why have you not been serving Windsor?

3 p.m.

Mr. Epstein: I am very happy you asked that question. When we went on the air in Windsor, as you know, Global was conceived as a regional entity with no separate programming and no separate advertising. We only sell national advertising; there are no local stores. When Windsor was set to go on the air, being part of the Global grid of stations it was going to run programs that Global had acquired from the United States, from the Seven Sisters of television, the big studios in California.

The Detroit stations that heard about it said: "Wait a second. We are not about to let this new station come on and go into our market with our programming." They went to their networks and the networks put pressure on the distributor who sold the sold the programs to us. The distributor said, "Wait a second, Global, you cannot run the show on your station at Cottam, Ontario," which is in the centre of Essex county. We said, "Why?" They said: "Because our American networks are making noise and we do not like noise from the American networks. They pay us"--in today's terms--"$800,000 or $900,000 an episode. Global might be paying $10,000, $15,000 or $20,000. There is no comparison. Therefore, Global, stop running those American shows."

We said: "We do not understand. We are not in their market. We carefully designed the transmitter, pulled it away from the border and the signal is basically in Windsor." They said, "That does not really matter because the Detroit stations include Windsor in their greater coverage area." At that time the battle was whether Detroit was bigger than Philadelphia. With the Windsor area they could argue they were bigger, but without the Windsor area they were not. When marketers do their buying they start at the number one market, the number two and so on down the list. They said, "The Detroit stations are concerned about your signal in Windsor." We said, "This is ridiculous," and that started a big fight.

In the meantime, there was no way Global could go up against the United States networks and their Detroit affiliates. Global ended up, as you know, Mr. Mancini, because you are from that area, with a transmitter that operated with a test pattern during all US programming and switched on to programming when it was running Canadian shows. It was hardly an acceptable situation. We

enlisted every branch of the federal government we could find to help us fight the battle.

In 1978, on my birthday, the transmitter burned down. I considered it a birthday gift because it solved the problem. Since that time we have tried everything under the sun to try to break that issue. The reality is that Windsor, Ontario, the Essex county area, is considered part of the United States of America to the extent that every contract now written for the United States in television says, "This program is being purchased exclusively in the United States of America, including Alaska, Hawaii and Windsor, Ontario, Canada. That is in every contract the three American networks sign.

The good news is that Global has filed with the CRTC a very complex and elaborate plan that will cost us about $15 million to upgrade our service throughout southern Ontario, right from the Quebec border, the Cornwall area and all the way through to a little town called Stevenson, which is not far from Leamington.

We hope the transmitter will be allowed to operate some 35 miles from the Detroit transmitters. Under US law, if we were in US territory, we would be allowed to run the same programming. My hope today is that within the next 18 months we are going to be approved by the CRTC and the Department of Communications to rebuild a transmitter, which will be quite expensive, that will provide a sufficient signal to get reception into Windsor, especially now that cable is there, and cover the rest of the Essex county area.

Mr. Mancini: Mr. Epstein, you will not mind if I disagree with you as to why you will not serve Windsor.

Mr. Epstein: I would love to hear your reason if I am allowed to.

Mr. Mancini: Absolutely. When your transmitter burned down your firm sent a marketing individual or somebody from the marketing department to visit the area members. I was one of the members he visited. I was told that the accident that occurred at the transmitter was a minor inconvenience for the viewers. The major inconvenience would be for the company because of the cost, but you would be moving ahead to service the people in Windsor again. Seven or eight years have passed and that has not happened. Having probably watched the situation from closer proximity than some of my colleagues, my point of view is that you are probably glad to get out of serving the Windsor area, even though when you were licensed part of your mandate was to serve Windsor.

Mr. Epstein: I do not disagree with you at all. We were glad to get out of our problem in 1978.

Mr. Mancini: I think you have been somewhat remiss in not serving Windsor. A lot of the things we have discussed today make it very difficult for me to accept all the valid arguments you made because of the way you have treated Windsor and Essex county. I know and you know that in many of the communities you now serve, the transmission in fact does go into the United States. Is that not true?

Mr. Epstein: No.

Mr. Mancini: You mean there is no other area in the province that you serve where the transmission does not cross the border? Do you not serve Niagara Falls, Canada?

Mr. Epstein: No, not really.

Mr. Mancini: Does your transmission not go that far?

Mr. Epstein: We have a transmitter in Paris, Ontario, which is some 70-odd miles away.

Mr. Mancini: Does it get to Niagara Falls?

Mr. Epstein: Not really. In fact, one of the things we are proposing to do in this change is to try to improve that area as well. I do not really think it is appropriate to debate that here, but I would like at least--

Mr. Mancini: I did not think you would.

Mr. Chairman: The comments are getting a little bit off topic.

Mr. Mancini: They are on topic in that the arguments made today by Mr. Epstein are based on the fact that his company was serving the Canadian market. They are on topic because there is a part of the Canadian market that he is not serving. The reasons you were giving, in my view, were somewhat suspect because of the situation in Windsor. That is the point I was trying to make.

Mr. Epstein: If I may, I would like to make a comment very quickly, and I appreciate that this is not the issue. First, I would be happy to discuss it with you afterward at some length.

Mr. Mancini: I have written your company letters in the past and it did not do any good.

Mr. Epstein: Second, what you may not be aware of is that we have put applications in front of the Canadian Radio-television and Telecommunications Commission, the Department of Communications, the Secretary of State and the Minister for External Relations to try to resolve this. It is not as if we walked away from it. But I would certainly like to have that conversation with you separately.

Mr. Mancini: I am sure you would.

Mr. Epstein: I think it would be useful for both of us.

Mr. Hennessy: It would be good for the committee, too.

Mr. Chairman: I think Mr. Mancini's point is well taken. I do not know the particular circumstances you are talking about, but Windsor does seem to be a very unusual circumstance as you have described it.

Mr. Mancini: The CBC serves Windsor without a problem.

Mr. Chairman: CTV serves Windsor from Wallaceburg or someplace well back.

Mr. Mancini: The only reason we are going to get Global now is that there is a cable in Windsor.

Mr. Chairman: There is one success story in Windsor in radio, is there not? It is CKLW, which at one time about 10 years ago had more listeners in the United States than any station had in Canada.

Mr. Epstein: In a way, the discussion about Windsor is relevant. At first I thought we were wasting our time, and I apologize for that, but I think your point is a good one.

If I may, I would like to answer two or three things all at once. First, your comment about the Windsor service is correct. The Wallaceburg transmitter in fact is a null; it is a reduced signal towards Windsor and the US border. So while it is at Wallaceburg, the signal is pulled way back, and the official coverage of Wallaceburg, CTV, is about 20 or 25 miles this side of the US border.

The CBC has a station there, which is now called CBET. If you were to tune in to it once in a while you would find out that the program service on that station is totally different from the program service on every other CBC-owned and CBC-operated station in this country because of the Windsor, Ontario, Canada problem.

However, I seem to have a unique history that falls squarely into the middle of a lot of these issues, because in 1966 as a consultant I spent a year working for RKO which, at that time, owned CKLW radio and television. Your comments on the success of the radio station are apropos of something that was said this morning about the music industry and the success of the content rules in music.

3:10 p.m.

When I was at CKLW, we became the number one station in Detroit, in Toledo and in Cleveland. It was an enormous success, to such an extent that the moment the 20-20 radio, as we called it, put a new song on the air, all the other major market stations were following us. In those days, when we put The Who on the air in Windsor, they had instant exposure to millions of Americans, not just because of that station's success and audiences but because it was copied and was leading the country in many respects.

When the 30 per cent content rule in music came in, program schedule from the point view of music play in Windsor was such that the audiences started to slide. The Americans said: "They are not playing The Who because it is the hottest group. They are playing The Who because they are Canadian and they have to play them, so why should we follow them?"

Mr. Mancini: Do you not think some of that had to do with the rise of the FM stations, the FM phenomenon? CKLW at that time could no longer compete with the FM phenomenon. Even people who had listened to CKLW for many years were switching over to FM. You know that.

Mr. Epstein: Let me answer by saying that CKLW has a very effective FM station as well, but it, too, has content rules. The result, whether it is a singular cause or not, has been a slide of CKLW radio for several years, to the point where it is not a major factor in Detroit any more. Perhaps in radio terms and in music terms it was our best exporter of Canadian talent, and it is too bad we did not foresee some of the possibilities of that kind of change.

Mr. Chairman: Are you blaming the Canadian content rules?

Mr. Epstein: In the specific case of Windsor I think it was a major contributor.

Mr. Mancini: There is a station right now in Windsor that cannot

meet the 30 per cent content rule, and the rule was waived for it--CJOM, I believe, or one of those stations.

Mr. Epstein: There is no problem in meeting the content rule in radio; it is a question of which records you put on. CKOM actually does very well in Windsor because its focus is Windsor. What I am talking about is the chance of having a Canadian station--radio, TV, anything--have a big voice to the south or, in the case of Windsor, to the north. What has happened, for various reasons, is that Windsor has just slid out of the charts in Detroit and out of the charts in terms of the US followers of big stations.

Mr. Chairman: What does that do for the new superstation that the CBC is setting up? Is it going to have to be American?

Mr. Epstein: In simple terms, we think it will be a disaster for the CBC and a disaster for Canada. Let me start by saying that virtually all the so-called programming they are talking about is co-produced right now. The programs we have that we like to think are succcessful are already sold in the United States, and the cost of reacquiring those rights would be enormous. The potential audience size for a station like that in the US would be very small indeed, very difficult to sell.

Worse than that, the CBC will face what Ms. Whittaker said was mirror legislation regarding our famous Bill C-58--I think it is section 19 of the Income Tax Act--in which advertising directed from the US to Canada is not a deductible expense. That was clearly not a money-raising or a tax-collecting bill; it was a cultural bill designed to do certain things. The US, of course, has done it in reverse, and for virtually all Canadians we said, "Fine, do it in reverse." If the corporation is going ahead with its plans for this superstation, the first thing we are going to find is that the corporation will be fighting to get the legislation, the original C-58, reversed so it can effectively sell in the United States.

We think the loss of dollars there in advertising terms will be far greater than any number of dollars the Americans are going to put on a Canadian station with Canadian programming available on a discretionary basis in cable homes in various parts of the US. We think that policy is a loser in terms of dividing and conquering. We also think there is not a realistic probability of its developing a large enough following to make the cost of the programming, promotion, advertising and selling worth while.

Mr. Mancini: You made Windsor the main focal point of page 4 of your brief. Nothing you have told me this afternoon, I do not think, will change my views on why you are not serving Windsor. The facts are that there is advertising on CBET, the CBC station in Windsor, focused towards Detroit; there is advertising on some of the local Detroit stations that advertise directly into Windsor because there is no one else there doing it; and even the Public Broadcasting Service, which is one of the outstanding stations in North America, can solicit funds from people in Windsor. Thus, there is a gap and no one is filling it. You have a licence to fill it, and--

Mr. Epstein: You have said three things that I would like to comment on: first, that there is advertising on the Windsor CBC station directed towards Detroit. I agree, sure. In fact, the only way it makes sense for a national advertiser on television is to look at the market as part of Detroit, to look at the rates for Detroit; and if Windsor is competitive in the context of Detroit, an advertisement is sold.

I am trying to differentiate between Windsor qua Windsor in national advertising terms and Windsor as part of the Detroit market, and it is true that there is some selling. We put an application in front of the CRTC in which we said: "We will do as the CBC does. Let us put in a big station. We will clear programming there, we will run our Canadian shows, we will clear Detroit programs and we will sell advertising in Detroit." The CRTC thought it was terrible that we should sell advertising in Detroit and it said no.

The second thing you said is that the radio stations do sell advertising directed at Windsor, and that is true. Overwhemingly, though, it is local advertising intended for the local market from local merchants. It is not the kind of national advertising I am talking about.

The third thing is a really sad, sad thing: that Canadians find themselves sending support dollars to an American educational public broadcasting station.

Mr. Mancini: We might support your station if you served us.

Mr. Epstein: We are not asking for charity. We are asking the CRTC's co-operation to allow us in some manner to put a station on the air that will provide as good a signal as we can provide and, we hope, far better than the one provided at the moment.

Mr. Mancini: Ford would be willing to buy an ad from you, but you do not serve the area.

Mr. Epstein: I guess we could debate this forever. I would love to debate it; I just do not want to tie you all up.

Interjections.

Mr. Chairman: Can we have some order, please? Have you any other supplementaries, Mr. Mancini?

Mr. Mancini: No. Frankly, I find it hard to sit here and accept all the things that are being said on the basis of nationalism and all these other subjects that are being discussed when the local facts that I know of tell me something different of the corporation's intentions. That is all.

Mr. Epstein: Mr. Mancini, perhaps the concern that you should have and that we as Canadians should all have is that some day the model of Windsor may spread throughout Canada. That is the concern.

Mr. Chairman: Fair enough. You have each had a last word.

Mr. Mackenzie: I could not help thinking when you gave us figures of 149,706,330,000 commercials that now I understand why I am totally convinced there are a hell of a lot more commercials than there is programming on any of the stations I watch. I am also not at all sure your argument that if we tried to control it, it would be seen as censorship if we did away with some of the commercials is necessarily true. I would be quite happy to see a hell of a lot of it done away with.

Mr. Callahan: They are obscene, some of them.

Mr. Mackenzie: I can understand the retaliation we might face.

Mr. Epstein: Let me say this: The problem we always have as broadcasters is that virtually all the statesmen who look at our industry talk about violence, about alcoholism and about wanting to change that and so on. However, the one thing they all seem to forget--and maybe what you are saying, in fact, is the only way to do it; and in that case I would oppose it--is that we can do whatever we want to do to our Canádian stations. As a country we can take the advertising off, take off the violence, take off the sex, take off everything and put on what some legislator somewhere says is good programming. In that case we are going to have 99 per cent of the viewers watching American stations, which we will not regulate and control, unless what you are advocating in fact is putting up an electronic screen and shutting the door. That is another whole debate.

3:20 p.m.

Mr. Mackenzie: I am not sure we can, but I would not be very upset if somebody clipped about half the commercials I see on television, when I get the chance to watch it.

I do not think the television industry is alone in some of the concerns you have expressed in your brief. I would like to get your reaction to where we might go. I do not think the status quo is going to be it, and I do not think there is anybody, regardless of our political positions in this room, who does not recognize that we are a trading nation. In regard to dealing with the crises that arise, we have talked about some kind of ongoing mechanism to deal much more quickly with various problems that arise industrially, whether they are in lumber, fish or steel, in regard to broadcasting and the various media industries and the cultural industries. Would that require some kind of separate set of negotiations, if that is the proper word, to deal with the problems we face?

Mr. Epstein: Your point is very good, and I talked first only about the television business because I think it is so obvious, so visual. I do not know, for example, what happens with US magazine impressions and how many millions of dollars in free advertising flow across the border in Playboy, speaking of a quality product. There will be a lot of other areas where this kind of effect would occur.

It is surprising. I am not sure we have to have any negotiations in the area of culture, and I do not believe the issue is one of either bilateral negotiations or reciprocal action. I believe we are masters in our own house in this country in this area. The first issue is to try to get focus on the part of legislators, parliamentarians and regulators in general on the fact that television is more than programming, that we have a major leakage in this country.

I am not advocating censorship; I am not advocating wholesale giving up. All I am saying today is please, let us all get together and at least start thinking about the things we can do. I can give you a list of some easy ones and some things we should not do in this country.

Mr. Mackenzie: If I may cut in there, it would be useful to have exactly that from you. I am not sure exactly where it would fit in, but it is obvious that we do need some kind of mechanism in regard to our industrial problems. When we ran into the kind of problem we had in steel, it was the ability to marshal the facts and to organize it that got us off the hook, at least for the time being, and we have the same problem with a number of other products in this country. I recognize the point you have made that there is a

tremendous impact on our industry as well as a result of the patterns, buying patterns and demand patterns, that come from the advertising that is done on television and in the other media.

It seems to me also, though, that there are some problems. The brief this morning outlined them; even your comments indicate some problems. Is that something that, while we set up a mechanism to deal with it in terms of, as I say, the crises that arise in manufacturing, we do not need to do, that it can be handled on our own, that we are our own masters? It does not appear to me that we necessarily are from the presentations that are being made.

All I am asking initially in this is specific things that need to be done--or do we need a separate kind of mechanism from some kind of ongoing commission or body that could respond almost immediately to industrial problems?

Mr. Epstein: I may have misspoken again. I did not want to suggest that all of the industrial issues can be internally solved. I was referring only to the problem of advertising and promotion, and if I can use the term "culture" in the broader sense, I think it is not a question of negotiation to a large extent.

The reality is that there is free trade when it comes to television programs. We do not put tariffs on information flow between the two countries. In that sense, that is not the main issue. The main issue is, how do we regulate our broadcasters, and how does that compare to the American broadcasters? What can we do to make our broadcaster more effective, and what can we do to make Canadians choose not to want to watch the American broadcaster as much?

We can do things like the simultaneous substitution rules, which can be broadened without harming the public, not allowing the three Detroit stations to extend the Windsor problem to Canada by virtue of having them licensed to deliver to St. John's, Newfoundland; Winnipeg, Regina and Saskatoon. Those are beginning easy opportunities.

We should not create more means by which we pay foreigners, particularly Americans, copyright payments under the international treaties. That is what would happen under the proposed changes to the federal Copyright Act. We should look to ways that we can meet our international treaties and have the money flow back to creators in Canada.

I found it interesting that in the document called, Charter for Creators produced by the parliamentary committee of the federal government, in the policy statement the word Canada does not appear, not a word. It was not what is best for Canadian creators or what is best for Canada and creators; it does not exist. Canada would lead the world by leaps and bounds if we introduced some of that. Every other country is very much aware of the pluses and minuses internationally and what it is doing. This country puts blinkers on and does not want to look.

As I said, I did not come here planning to give a shopping list; but I am pleading that perhaps this committee send a loud message that it is time for us to realize that culture is not the only thing involved in the cultural industries and that programming is not everything in broadcasting; some of the housekeeping really has a big impact. Certainly I look forward to sitting in on that discussion because there is a long list, as I say; but I do not think I have all the answers.

Mr. Mackenzie: We have on the record three or four suggestions you have made; if you are willing, it might be useful to ask you to consider giving us a list of the things you perceive as being necessary for the health of the cultural field.

Mr. Epstein: I would be happy to respond. Unfortunately next week I am on the copyright appeal board and will be spending a week trying to convince them not to increase the amount widows and orphans of American composers are getting.

Interjection.

Mr. Epstein: Do you want to pay them more? Do you have a plan to pay them more?

Mr. Mackenzie: We have more than a week or two. If you would be willing, it would be worth sending it forward to the committee.

Mr. Epstein: By all means.

Mr. Callahan: Mr. Epstein, I want to ask you a couple of questions. The first question is one I asked of the young lady, Sheelagh Whittaker this morning.

How in the world does a film company in Toronto, that received its money through promises as a result of federal government regulations of large deferrals of income, wind up producing a pilot and a series, Night Heat, which certainly appears to be quite successful. It first shows up on the CBS network opposite Johnny Carson, which I thought this was a very gutsy move on the part of the CBS. They must have thought quite a bit of it too to put it on at that time; and then CTV subsequently has to buy the Canadian rights to Night Heat because it is successful.

You talk about coproduction with people in the United States so we can come up with something to make the programming in this country worth while, so we can compete in the US, yet that is allowed to happen. I do not understand that; that is ludicrous.

3:30 p.m.

I can see where the producer of the film might want to go to the US first, because that is its larger market. Surely one would think there would be a greater effort on the part of Canadian television to coproduce if it had some control over where it is marketed first, where it is tried first. Investors may not be very happy with that at the outset but if it becomes a success story here then you have the opportunity to gather a large portion of the United States market, just as it does with Dallas and Dynasty.

Mr. Epstein: If I did not believe that I would not bother. I should tell you I was one of the major shareholders of a very successful American television station from approximately 1978 to 1985, and which we sold for a good profit, I am happy to announce. I found it was far easier to succeed in the US, not only in television but generally; and the idea that where what we try to succeed is certainly fundamental to what we are talking about.

What you say specifically about programming is something that is possible with the right environment, with the cheap dollar--which is helping us considerably in terms of production activity in this country--with a

positive attitude on the regulatory basis towards what we are trying to achieve, and with the investment of Telefilm, which is a very good thing, we have a chance.

I do not know the details of Night Heat but, if I may, I can more easily talk about the kinds of things we might do. From its inception, Global has tried to produce its own news, public affairs, live events and sports programming. Other than that, we have had a very rigid policy to co-operate with independent producers; by that term I mean producers who are not licensees of television stations.

In the early days there were many independent producers but none had any money. It was very difficult but we persevered with this approach; now there is a growing community of Canadian television and movie producers who are not connected with a television station per se. Our approach is to work with those people getting past the initial stages. We may look at 500 programming ideas a year and pick two, three, four or five of them. We go through the initial stages. We sometimes provide seed funding and so on. Of the producers who have shown they have an ability, we try to work out a package with them where they get some of their funding from a distribution agreement with us.

If they can get the distribution agreement, they can get an investment position by Telefilm, and the balance of their funding through sales worldwide. US Pay-TV has helped because the US pay operations are good customers of our independent producers; we are starting to see that effect. My hope is that as we do this, and each year add another half hour on Global, CTV, and even on Canadian Broadcasting Corp., if they would deal with independent producers, perhaps we can start getting programs that succeed.

We put on a show this year which in our terms is certainly a hit, but not necessarily to be proud of culturally. It is called Jackpot, a game show. For every dollar Global is putting into that show, about $10 is being spent in Ontario in production. In turn, we have our first legitimate non-news, non-sports hit which runs five days a week; we will continue it. Next year we are going to try to do something similar.

We have other programming things we are doing, several of them are expensive. Global Playhouse and others are expensive programming and frankly we lose money on them but for every dollar we put in now, this process is multiplying and we are starting to get a lot of activity. We are actually training Canadians to do the work of cinematography, editing, make-up, the costumes, the sets--all the support areas are actually growing, both here and in Vancouver, which is becoming a very effective location for shooting. I am hopeful.

What I am trying to say is that this is the right way to go; I think we can succeed. As far as your other point is concerned, the deferrals of taxes, the writeoffs, Global opposed those writeoffs for years. We said, in effect, by having 100 per cent writeoff up front, you are paying for failure. What happened as a result of that is there were all kinds of Canadian productions put together. A lot of doctors and lawyers bought their tax shelters; and bad programs and movies were put together. They went off to sell those programs around the world and created a terrible reputation for Canada as a producer of programming.

In the station in which I was the chairman of the executive committee, my president did not even want to look at programs we produced. He said, "I have seen enough Canadian stuff, it is garbage." We turned out so much bad

programming solely for the reason that the producer made money and the tax shelter specialist made money because of the writeoff. It was a tax shelter and that is what the doctor bought. We have long advocated a totally different approach. We want to reward success.

In a little country like Jamaica, if you go down and produce a program, the first seven years of revenue is tax free. The fact is few independent television programs make money; although the major studios make large amounts. For every 175 pilots tried, one makes it on the US network; the other 174 guys lose money. It is a tough business but it is a business in which people seem to be prepared to invest. We would much rather see the government rewarding sucess than rewarding failure. If Mr. Mackenzie were here, I would say there is another example of what we think--

Mr. Callahan: They have done that in some respects. (Inaudible)

In any event, let me get on to another point. The reason I raised this and I should have raised it with Ms. Whittaker this morning, it would have been unfair because you could literally block out the channel number of Canadian Broadcasting Corp., and I could tell you it is a CBC production.

Mr. Barlow: That good, eh?

Mr. Callahan: CBC has almost as distinctive a flavour as a Big Mac; I am serious. If we are ever going to sell this to the United States, maybe something you have just suggested about some tax arrangements with the government to coproduce, whether it be on an income free or tax deferral arrangement with television networks, would be very important.

The second point I want to make is that the US channels, particularly Buffalo, turn me off. As I understand it, the Federal Communications Commission allows them to put on four commercials every eight minutes of programming. I have counted some of them and I think they have 10 on there. It might be attractive, if you can get something going programming-wise, to spread out the commercials. People in Canada and the US are getting tired of watching one entire commercial and maybe glimpses of what the program is all about.

The third point is that some of the most excellent opportunities to get what would be important programming for the US, that would cost you nothing, is the House of Commons--and I think the Americans would get a real kick out of that--or even the Legislature that is starting. That is clear Canadian content. You cannot get any more Canadian content than that. It gets across to the Americans what our culture is about and how our government operates; or even the court systems. Look at this program they have on a Buffalo network called Small Claims Court or something.

Interjection: People's Court.

Mr. Callahan: People watch that as religiously as they do the soap operas; literally, it is nothing more than a court program.

From what I have heard from you and Ms. Whittaker, communications companies in this country are going to spend all sorts of money. They are going to say they cannot spend that money to develop or capture the US market by missing all of the freebies that could be significantly available, without any productions costs whatsoever, other than transmitting the signal. I think the United States would eat that up.

Mr. Chairman: Mr. Epstein is here to give us advice.

3:40 p.m.

Mr. Callahan: It is just a comment. I appreciate his original message about the field itself that, until the Canadian television networks come of age and are able to compete and attract a United States market, free trade would be disastrous.

Mr. McFadden: My advice (inaudible).

Mr. Callahan: I do not know about that.

Mr. Epstein: Perhaps I should comment that I am here to suggest that there should be a two-way flow. We want to hear the Americans and we want to speak to them. In this case I am quite prepared to listen, if I am doing most of the speaking.

You said three things basically, all of which I think are important. First you can tell a Canadian Broadcasting Corporation production. You do not have to know the channel number. You can turn it on and you can tell. Money is the common ingredient for most of that problem. The reality is, when you watch a very high-quality US drama--I am not talking about whether you like the story line, I am talking about the input which is enormously expensive to do. A major US series now is costing in the order of $1 million per television hour, which is really 50 minutes and the prices show no sign of going down.

This morning there was some discussion that television programs were made in various places. Dallas is done in Los Angeles. When they need some scenes of Dallas they send a second unit to Dallas for a day. They shoot some scenes for the next six show and come home. Remember that television is form, not substance. It is all trickery, but the trickery is very expensive. The imagery and the mood that is created is a very expensive activity and the CBC and CTV and Global combined are small compared to even one or two of the big broadcasting groups, never mind the networks. Westinghouse or Storer or any of those are bigger than this country's entire market. No matter how much we try to invest in a Canadian-made program for Canadians in one language, never mind two, we do not have the bucks to compete.

The reason I hear from friends, "You can hear the noise in the background, or I can tell that" is because we simply do not have the budget to put into those programs. Our hope is that with those co-productions the dollars we can get out of the United States and other countries up front, coupled with Canadian dollars, can start showing results. We are starting to do it. We are training people in this country with the talent to make the makeup look natural instead of pasted, to make the sets look like they are real buildings instead of cardboard and so on. It is starting to happen but it is going to take time and a lot of money.

The second comment you made was about commercials. The reality is that everyone is very sensitive to commercials. In Canada our laws allow 12 minutes an hour of commercial content including station identification and so on, Twelve minutes of interruptions, if I can use that term. The Americans do not have a law. The National Association of Broadcasters used to have a policy called the NAB code, which was overturned by the United States courts as being antitrust. Since they do not have anything, most stations adhere to a policy of somewhere around 10 or 11 minutes in prime time and 14 or 16 minutes out of prime time. There is not much difference between the two countries. In the

end, everyone responds to the viewer because we only get paid when we have viewers. If we start getting feedback that our ads are obnoxious or there are too many or whatever, we become very sensitive.

The third thing is I am happy to report that today when the United States House is not sitting, C-SPAN carries the Canadian House of Commons in the US. They have had some very interesting comments. You are quite right, the Americans love it. It is a very tiny audience in percentage terms, 100,000, 200,000, 300,000 people scattered across the United States who think it is wonderful.

Mr. Chairman: Do they understand it?

Mr. Epstein: Probably better than most Canadians.

Mr. Callahan: Let me quickly tell you a story about that. I had a relative visiting from the United States. She was looking after our kids and watching the debates of the House of Commons when Mr. Trudeau was there. She said: "Mr. Trudeau really is a very excellent man. Every time he stood to speak they cheered." I said, "Did you look across the aisle?" She said, "Yes, they did not look too happy." She did not understand the process; she thought the guy was getting a standing ovation every time.

Mr. Morin-Strom: We have had a lot of interesting subjects here. Mr. Mancini's question spurs me to ask--not in the same vein as his question perhaps--what is your market area, what communities do you serve, not only within Ontario but within Canada? I am not aware of what the total Global Communications Ltd. picture is. Has it ever served any communities in northern Ontario; is there any intention to serve any communities in northern Ontario? If not, what would be the economic reason behind where you are going in regard to marketing in Canada?

Mr. Epstein: It was remiss of me not to have started with that and I was silly not to have at least brought a map. I will try to do this without the benefit of television and visuals.

Global was originally licensed in 1972 to operate six transmitters from the famous one at Cottam, Ontario, which essentially was going to serve Essex county, to a station at Oil Springs not far from Sarnia, both of which are UHF. There is a large station at Paris, Ontario, on channel 6 with a tower more than 1000 feet high and a quite powerful station that covers that whole Middlesex area, Kitchener, London, Brantford and probably the Hamilton area. The Toronto region, Barrie, Lindsay and so on, is currently covered by a channel 22 UHF station, which at the time was the most powerful television station in the world, running five million watts of effective power.

To serve Toronto as well as the areas to the north and the east is a station located in the middle of nowhere near Denbigh, Ontario, on channel 2--a powerful station with a high tower designed to reach as far south as Kingston and Belleville and as far north as Pembroke; and there is a very small station on channel 6 in Ottawa to serve the local community, making up the six for which we were licensed. There was a seventh application to operate a UHF station in Maxville which, it was hoped by Global's original owners, would provide some service into Montreal.

We have filed with the Canadian Radio-television Telecommunication Commission an application to upgrade many of the stations I mentioned and to add several new stations, all in southern Ontario. Mr. Mancini has made

everyone fully aware of our problem in Windsor. We hope that a new station, officially named Stevenson, which is going to be located near Leamington, will be able to operate and serve most of the Essex county area. There will not be a great signal in Windsor but we think it will be there and, with cable, perhaps we can solve that problem and serve the rest of the rural area of Essex county.

We are proposing to put a fairly significant station in the Owen Sound area. We have received letters from councils of townships and so on across Ontario over the years. By far the largest number of letters has come from Owen Sound and Bruce and from the Cornwall area. The station would be located a little south of Owen Sound but would cover that area in the Bruce and Owen Sound region.

3:50 p.m.

We are proposing to realign our transmitters in the Toronto area. They will go on top of the CN tower which will improve our signal quite considerably in the Niagara area, which we do not cover now. We shall move our Uxbridge transmitter to provide service into Peterborough, along with another transmitter to improve service north of Barrie in a very complex move. We propose to increase the power of our station near Denbigh, which is officially called Bancroft, to improve what is a very poor signal in Kingston and Belleville. We propose to make a massive increase in the operation in Ottawa as a result of some international technical changes and we hope a station in Cornwall will be approved to help settle some of those letters that we regularly receive.

The whole plan is about a $15-million investment for us, which we think will be justified over seven, eight or nine years by virtue of the improved opportunity people will have to watch us. As you know, we are carried on cable systems throughout Ontario. We are really only talking about the people who do not have cable or do not have a second set on cable--mostly rural or poor--who are not great advertiser attractions. However, we feel that the extra audience available will be justified because, as time has passed, our programming costs have grown, and those programs are not being amortized amongst all the Ontarians in southern Ontario. We shall find out in a few years whether we are right.

We do not have a transmitter in northern Ontario. We are carried on cable through the Sudbury, Timmins and North Bay region and have been reluctant to go into northern Ontario with a full service because the existing CBC and CTV operations are not very strong. We are concerned if we go in with full service, we may put them into jeopardy. We may hurt them enough that they have to cut back and, from the public point of view, may be losers.

We are carried extensively. We have about 60 per cent of the audience in Timmins, Sudbury and North Bay. Part of the answer may be to look to cable extension into the Sault. I thought that was happening.

Mr. Morin-Strom: I am not aware that there is any cable in the Sault. It is not on a regular--

Mr. Epstein: We are not on cable in the Sault at the moment, but I understand that there is a move by the cable company to bring us in, which would be entirely up to them.

Mr. Morin-Strom: I have one question on all of these communities.

Are you doing individual news broadcasts on every one of these stations for local audiences?

Mr. Epstein: No. Our licence restricts us. It is a unique licence in North America, in that we are only operating with essentially the same programming and the same advertising everywhere, and we are specifically prohibited from accepting an ad from a local merchant. That is left to the other existing broadcasters. We can sell only those national advertising ads, such as Coke and Gillette. Our nature is such that we are somewhat different.

If I may go on--because I think this is part of the whole picture--we have announced that we are applying for a national service to go into all parts of Canada that have significant numbers of people where there is not a third Canadian broadcasting station. In other words, where there is an independent station in Winnipeg, Vancouver, Calgary, Edmonton and so on, we would not go in to compete with that station. We see that station as a natural to buy programming from us and with us when we go the United States, which is what happens now. There is a need to start filling in those markets that are not tiny, but are third-level markets. We are making an application for this, which we hope will in one way reduce American viewing. If we are there and our signal is available and popular, perhaps fewer people will watch the Americans.

In summary, we hope that some day we can have Global cover all of Canada, either through stations that buy our programs or through our own stations.

Mr. Cordiano: I have one very brief question, and it goes back to Bill C-58, with respect to cross-border advertising, if I can term it that way. I am having a difficult time trying to figure out what effect that would have if the rules were to change. Most of the consumer goods manufacturers place ads with your network. Why would they then place ads with the American networks if they are allowed to deduct that as an expense on their income tax?

Mr. Epstein: You have made an important point and I need a moment to try to provide the basis for the discussion.

The Bill C-58 issue relates to advertising dollars that are spent on American television stations by Canadian taxpayers for the purpose of reaching Canadian audiences. The focus of my document is the advertising that is not paid for, that is bought by an American advertiser for the United States who says: "I am giving you a bonus in Canada. It is a problem. I do not want to know about it. Can you stop it from going in?" They get it for nothing anyhow and if they keep saying they do not want it, they will keep getting it for nothing. That, in my view, is a massive problem for our industrial base.

Perhaps we could look back to the $20 million I talked about, and that is the advertising currently being spent by Canadians on American stations. Those dollars are being spent even though they are not tax deductible. Sadly, the kinds of advertisers who spend those are organizations such as the Toronto Transit Commission because they do not pay tax. Why do they go to Buffalo? The Buffalo stations, as a result of the legislation, had to cut their rates.

If an advertiser in Canada wants to buy from--not Global, because it is too hard to explain--CITY-TV, a Toronto-area station, or CHCH-TV in Hamilton, the way in which the advertiser is sold that advertising is based on a charge per 1,000 of audience that the advertiser wants to reach. For example, let us say he want to reach adults. The rate he pays is not for the "spot"--if I can use that word--but rather for the number of impressions he is going to make of

that group. He has his buying agency check, or he himself checks, by literally calling the advertising representatives who sell the time. He says: "How much do you charge, Hamilton? How much do you charge, CITY? How do you charge, Buffalo?" If Buffalo's rate is lower for the audience in Canada, it is a better deal.

Before the tax legislation, the Buffalo stations found the Canadian market--Toronto and Hamilton--was so much bigger than theirs that they could afford to charge considerably less than what a Canadian would pay for Toronto and still get more for their air time than they could from their own Buffalo audiences. The could undercut Canadian television stations.

Mr. Callahan: Could I interrupt you for just a second? I am about to leave, and I would not want you to think that we are drifting out. It is very interesting, but I have to go back in my riding.

Mr. Epstein: I love to talk about it. I am sorry I am so wordy.

Mr. Chairman: It is a tribute to you that it has been fascinating this afternoon. A lot of us did not expect it to be a full afternoon. Normally, committees do not even work on Friday afternoons. We are very appreciative of this.

Mr. Epstein: Thank you very much.

The only point I will finish with is this. If Bill C-58 were no longer in place, then the $20 million of advertising that is not being spent here but rather is being spent over there could mushroom quite substantially. People will simply choose to buy their audiences through the US vehicle instead of the Canadian one if the rate is lower on the US side.

Mr. Cordiano: That is the problem.

Mr. Epstein: In this part of Canada it is a problem, but we can face it and fight it.

Let us turn to a station in, say, Winnipeg or Regina. The station in Fargo, North Dakota, looks up to Winnipeg and says, "Holy smokes, that is a big market." They can charge three times as much as they get from the Fargo audience for that spot and still be cheap in Winnipeg. Even with the legislation, they basically cut their rate in half and tell the advertiser: "It is not deductible. You are paying half as much anyhow, and I am giving you a lower rate even after tax." It is really a question of supply and demand.

Mr. Cordiano: Okay, but now on the other side of the coin with regard to our exports into the US market. There is no way you can export any productions there because there is no incentive for Americans to advertise on any of those productions that are carried via some network that you have an arrangement with.

4 p.m.

Mr. Epstein: I am prepared, if I may use the analogy, to be David fighting Goliath. What I am not prepared to do is to be David with my left hand tied to my right leg fighting Goliath. All I am saying is that if we in this country had a chance to have something develop and succeed here, can you imagine having a really successful soft drink here and saying: "Let us try England. Let us try Australia. Let us try France. Let us even try the United

States. We have the marketing dollars. We know how to do it. We have the success. We will sell our story elsewhere." We have to succeed here first. We are not succeeding here, and there is a good reason we are not.

I never said this. The $800 million number I am talking about is roughly equivalent to the total amount of television advertising spent on all Canadian stations last year. It is not a small percentage; it is enormous. That is the problem. If we can start having a chance here, we at least would have a chance.

Mr. Cordiano: You are defying the arguments that many have advanced with regard to access to a larger market because our market is not large enough.

Mr. Epstein: I do not think that is the case. I am a Montrealer originally and I remember that when I was a kid we had some soft drinks that were Canadian. They have gone; they are like dinosaurs. We did have some items that had a market and so on because we were not being overwhelmed by this problem.

If we were to look at places such as Edmonton before the influx of massive US television advertising, we would find that there were local brands, local products, local soft drinks. Do you remember Pure Spring, Kik Cola? Where are they? They cannot get shelf space. They are not even there any more because of the overwhelming effect of the US products. Coke puts out a new drink, and the combination of the massive advertising campaign and its ability to get shelf space on those store shelves, which is vital, means instantly that that product is being sold. You and I get together, we put some money together and we try, but we cannot succeed.

Mr. Morin-Strom: You have to start up a consumer product like that at the North American scale. Minute Maid or Squirt is one of the new brands that come out in the United States, but what would be the incentive for a Canadian firm to start up in Canada? You have to start up on a massive scale because the sale of those products is so heavily weighted by advertising. If it is a low-priced item, people buy it on impulse, and it is heavily done on the basis of what they have heard.

Mr. Cordiano: That is exactly my point.

Mr. Morin-Strom: There is a tremendous competitive advantage for any American firm that has the distribution, that has the system in place to attack the American market to start there first.

Mr. Cordiano: That is exactly my point. How can we do anything in your industry, let us say, to advance the cause and to have Canadian production down the road when you are not going to get the kind of advertising dollars that are required? You are losing out.

Mr. Epstein: Sure, we would love more advertising dollars. It is not so much that we are looking for those advertising dollars as it is the situation in reverse of the person who wants to launch the new product. It does not have to be a soft drink. It could be a lawnmower; it could be a razor--Gillette; it could be almost anything. You want to have a chance to get the shelf space so that the merchant is even going to take up a part of his store to put your product in it. You want to have a means of reaching the public and you want to feel that when you put your product out there, it does not have a substantial disadvantage in relation to the American product.

Mr. Cordiano: That is what I am saying. If this spillover effect is not there, then certainly you will have consumer products that will have to respond to the marketplace and the advertising in this country.

Mr. Epstein: Yes.

Mr. Cordiano: Then you would have an opportunity to increase your production facilities as well, because you are going to have larger revenues, and maybe the spillover would not have the kind of effect it is having on those kinds of products. Why would they advertise a lot of these consumer products as heavily as they do normally if they did not get that kind of spillover?

Mr. Epstein: You are absolutely right on. Maybe I can hit you with another number. These numbers may be a few years old, but in the United States, television advertising is about one quarter of one per cent of gross national product; in Canada, television advertising is about one eighth of one per cent of gross national product. Related to gross national product, TV advertising in this country is about half. Why? You have the answer. Among other things, the multinationals do not need it, because they get the overflow. The Canadian stations do not have the audience and cannot sell it, and on and on, so that yes is the answer.

Mr. Cordiano: One last comment. This is just my own observation, but when you look at prime time television, there is not nearly as much consumer goods advertising on Canadian programs as you would find in prime time on American programs.

Mr. Epstein: Basically advertising, in terms of spots, is going to be used and sold. The value may be less because when we run Dynasty we get an audience of millions, and when we run Newsweek or Global Playhouse, a highly acclaimed Academy Award nominee, we get an audience in the hundreds of thousands. The reality is that that may be the case, but it really does not matter here, because the advertisers are buying both Canadian and American and they look to the number of impressions they are getting. That equalizes it, whether it is a Canadian or an American show. However, if, for example, we had larger audiences for our Canadian shows, if we could more effectively utilize our American shows or if we did not have a policy of the federal government that is increasing the viewing of US stations, we could at least start going the other way.

Mr. Cordiano: It affects Canadian production.

Mr. Epstein: Not even Canadian productions. We buy the rights to Knot's Landing exclusively for Canada, and yet a lot of people will watch Knot's Landing on Thursday night at 10 p.m. on the Buffalo station. We start by having a massive problem in our business because we do not even get what we pay for. Ironically, the American distributor says, "I cannot help it."

Now the American distributor has come back, through Prime Minister Mulroney and President Reagan, and said: "You are not paying enough for retransmission. We want to get paid again." In other words, they sold us exclusive rights and they did not deliver exclusive rights because cable was picking up the program. Now they are saying, "Pay us a third time," and we are listening.

Mr. Chairman: An interesting note to finish on. Thank you very much. It has been fascinating.

Mr. Epstein: I have enjoyed it very much. Thank you, sir.

The committee adjourned at 4:09 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, APRIL 14, 1986

Morning Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Hennessy, M. (Fort William PC)
Knight, D. S. (Halton-Burlington L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitution:
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Alliance of Canadian Cinema, Television and Radio Artists:
Neil, G., General Secretary
Hogarth, M., Member, ACTRA Performers Guild, Toronto Branch Council
Lazer, Dr. C., Member, ACTRA Writers Guild, Toronto Branch Council
Abbott, R., Member, National Executive

From Comac Communications Ltd.:
Barrington, J. P., President

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, April 14, 1986

The committee met at 10:07 a.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: We have a quorum. Subsequent to the announcements we were hearing from Washington on Friday, there was a request by Mr. Mackenzie to discuss our future before we progress to hearing the witnesses this morning. I indicated that today would be a more appropriate time than Friday to do that.

I am wondering whether we can discuss our future very clearly if Mr. Mackenzie is going to suggest we do something very radical. It is not terribly clear what is happening in Washington. It may be clearer by the end of this week. Do you have any comment on that, Mr. Mackenzie?

Mr. Mackenzie: Presuming that the information out of Washington is correct, the committee should have a discussion--it does not necessarily need to be today--on what should be in our final report.

The direction may change a bit. We should be looking at the alternatives and how we set up what we all agree with. Certainly we were also specific in our dissent that we should be looking at the kind of mechanism that will deal with the trade crises as they arise. We may very well want to take a different approach in a final report in this committee.

Mr. McFadden: Mr. Chairman, my suggestion would be along your lines, that we make that one of our major items of business on Friday.

There is the recommendation, which I gather is being debated by the whips and House leaders, that a new standing committee on finance and economic affairs be created. Our committee would be wrapped up and its mandate transferred to that standing committee. If that is the case, it would appear that the mandate on this whole question of free trade and trade discussions would be extended and could go on over the years.

On Friday, we might want to discuss more thoroughly not just the United States trade option, but also the other areas recommended in the interim report following our previous discussions, namely the General Agreement on Tariffs and Trade and the other trade options. It seems to me the trade issue will continue with us regardless of what happens in the Senate in the next couple of weeks.

My strong recommendation would be that we sit down on Friday to look at an agenda that would incorporate not just Canada-US trade, but also the broader issues as suggested in our interim report. The mandate given by the Legislature would permit us to do that as well.

My recommendation is to make that an item of business on Friday and allow for enough time to discuss it at greater length than we can this morning.

Mr. Mackenzie: That is the problem I was raising.

Mr. Cordiano: When do we have to have our report concluded?

Mr. Chairman: The direction technically still is that it should be completed by July 10. I have been given to understand that there will be no concern if we ask to have that time extended to the end of the summer.

What Mr. McFadden is suggesting is that we may not end up preparing a final report on the issues we have been discussing, looking instead at trade issues in general or perhaps gearing our final report to looking at trade issues in more general terms. It is probably very fortunate that in our first meeting we decided to interpret bilateral trade options to mean trade issues in general.

Mr. Ferraro: Might I suggest that in the interim you, Mr. Chairman, Mr. Arnott or even I myself contact the Ministry of Industry, Trade and Technology? We have a legal firm on contract in Washington. They might be able to prepare something for us and get the information to us as quickly as possible with regard to what the Senator and Senate finance committee are doing.

Mr. Chairman: That is a good idea too. Perhaps you could assist us in that, Mr. Ferraro.

Mr. Mackenzie: The other point we should be very careful with--and I would ask the chairman of the committee to contact the House leaders--is that the work that has been done by this committee not be lost in the shuffle if a change in structure takes place. I have some concern about turning over totally to a brand new committee the work that we have done, both the interim report and the work towards the final report. It may be that we shall have to in terms of the new rules being set up by the House. I would want to have some consultation with this committee on that matter.

Mr. McFadden: I too support that.

Mr. Chairman: We should be mindful of that in dealing with our caucuses.

As you may recall, the agenda for Friday includes a presentation scheduled for the afternoon because the witness would have difficulty being here by 10 a.m. We have attempted to have that witness change his plans so he can be here in the morning. I have not heard from him yet. Is it the wish of the committee to meet in the morning in any event to discuss in general what we are talking about, or have we exhausted that at the moment?

Mr. Mackenzie: That is the only time we have before we are back in the House.

Mr. Chairman: Would you want to have a lengthy discussion of that on the record?

Mr. Mackenzie: I do not know how much time it will take but we should schedule it.

Mr. Chairman: Do you want to leave the morning free to do that then?

Mr. Mackenzie: Yes, I would say that.

Mr. Chairman: Do other members say that too?

Mr. Mackenzie: And not schedule any other hearings in the morning.

Mr. Hennessy: I am sorry I was late. If, as Mr. Mackenzie said, there will be a new committee, at least the three steering committee members who represent each party at all meetings should be on the committee, if they want to make a drastic change. I would like to see the committee stay as it is, but if worse comes to worst, at least the three steering committee members were here for all the meetings and they should be the anchors of the new committee.

Mr. Chairman: We have not had any steering committee meetings recently. Mr. Mackenzie is suggesting that we have a full committee meeting with Hansard. Is it your suggestion, Mr. Hennessy, that it be a steering committee meeting?

Mr. Hennessy: No, but sometimes we do not know what the powers that be will come up with. Sometimes things change. If we have to go along with a change, it should be a partial change, leaving on the committee the main people from each party who represent us all the time.

Mr. Mackenzie: The point is that if this committee is rolled into the new committee, I am not sure we can dictate who goes on it. We can suggest that the steering committee members should be considered. That is something the leaders will have to work out.

Mr. Chairman: Then the direction of this committee is to withdraw the request to have Mr. Loewen appear in the morning. Leave him on for two o'clock and we shall meet in the morning to discuss the generalities of our final report and our future.

Mr. Mackenzie: Thank you.

Mr. Chairman: Now that we have the housekeeping finished, we have members of the Alliance of Canadian Cinema, Television and Radio Artists. Would you people like to take your places before the committee? Perhaps for purposes of Hansard, you could identify yourselves very briefly.

Members of the committee, you will recall that you received the brief last week on a confidential basis. It is my understanding that report can now be considered public, and that you are prepared to speak to it. Am I correct?

Garry Neil is the general secretary. Mr. Neil is on my right as I face him. Roger Abbott is on the national executive--are you the Roger Abbott of whom we hear?

Mr. Neil: No, that is his brother. He looks a lot like him though.

Mr. Chairman: Meg Hogarth is a member of the ACTRA Performers Guild, Toronto Branch Council, and Dr. Charles Lazer is a member of the ACTRA Writers Guild, Toronto Branch Council. Are you the spokesman, Dr. Lazer?

Dr. Lazer: I guess I am.

Mr. Chairman: Is Mr. Neil going to speak?

ALLIANCE OF CANADIAN CINEMA, TELEVISION AND RADIO ARTISTS

Mr. Neil: First, I have a few words about who we are. The Alliance of Canadian Cinema, Television and Radio Artists is an organization of over 8,000 professional performers, writers and broadcast journalists. We represent professionals across the country. We are organized in 15 branches in 10 cities. Of the 8,000 members of ACTRA, almost 5,400 live and work in Ontario and here we are organized into three branches, two of whom are represented here today: the Toronto writers branch and the Toronto performers branch. In addition, we have a branch in Ottawa. Unfortunately, our colleagues from Ottawa could not join us, although obviously we are speaking on their behalf as well.

We welcome the opportunity to appear before this committee as yet another avenue through which we can demonstrate our opposition to the proposed free trade negotiations with the United States. Our basic point to this committee is that we would urge the Ontario government to demand that, if free trade negotiations are to begin--and in our minds, that is a big if--cultural matters must be left off the bargaining table.

Obviously, we are most directly involved in and therefore most vitally concerned about the cultural industries. We oppose free trade in this sector for both economic and cultural reasons. Dr. Lazer will lead us through the paper he initially wrote. It has been approved by his branch council and supported by the other two councils in Ontario.

Dr. Lazer: I would like to take a moment to read through the report. It is not terribly long, and then we could address questions if that is okay.

About 60 years ago, Lewis Selznick, one of the pioneer Hollywood producers and the father of David O. Selznick, the man who produced Gone With the Wind, said: "If Canadian stories are worth making into films...companies will be sent into Canada to make them." I think that is where this discussion begins, because I am not sure that much has changed in the American film industry in those 60 years.

With respect to the free trade talks, there has been no single clear statement defining the federal government's meaning of free trade. Its chief negotiator, Simon Reisman, has stated in interviews that, as far as he is concerned, everything is on the bargaining table.

This paper briefly considers the impact of including the Canadian film and television industries in a comprehensive bilateral free trade agreement with the United States and concludes three things:

1. The Canadian film and television industries will be seriously harmed;

2. Some individual Canadian artists and companies will be able to succeed as long as they are guaranteed unrestricted access to the US market;

3. Our Canadian culture and identity will be irreparably damaged, even to the point where the existence of Canada as a separate and unique nation will be brought into question.

Since tariff barriers between Canada and the US are already minimal, a free trade agreement will concern itself largely with nontariff barriers, and almost every government program which affects the economy can be defined as a nontariff barrier. Though the US Department of Commerce recently ruled that

unemployment insurance benefits for Canadian fishermen did not constitute an unfair subsidy, it defined over 50 other subsidies to Canadian fishermen and levelled a five per cent countervailing duty on certain Canadian fish products from the Maritimes.

10:20 a.m.

By this standard, social programs, medicare, regional development assistance and other forms of industrial and nonindustrial support will surely be regarded as nontariff barriers to be eliminated in order to create a level playing field for producers in both countries. Right now, the Canadian film and television production industries are supported and protected by a mix of federal and provincial subsidies, regulations and tax incentives that include Telefilm Canada, the Canada Council, the Ontario Arts Council and the Ontario Film Development Corp., regulations regarding Canadian content for broadcasters and foreign ownership in Canadian broadcasting systems, capital cost allowance for certified Canadian film productions and Bill C-58, which eliminates tax benefits for Canadians advertising on US television stations. These programs were put in place to encourage and develop a Canadian industry in the face of overwhelming foreign competition. Without them, the Canadian industries could not survive.

Even with this support, our own domestic Canadian markets are deluged by foreign product, predominantly US product. According to the film industry task force chaired by Marie-José Raymond and Stephen Roth in 1985, Canadian firms occupy only three per cent to five per cent of total screen time in Canadian film theatres. They make up two per cent to four per cent of videocassette titles for sale in this country. Foreign companies control 90 per cent of the Canadian feature film market, and 97 per cent of the profits from film distribution in Canada go out of this country to fund film industries in other countries.

Canadian programming accounts for only 28 per cent of all English-language television programming available in Canada and 26 per cent of prime time programming. You can see more US news than Canadian news on Canadian television.

In television drama, which accounts for half of all Canadian viewing time, Canadian production makes up only two per cent of the English-language drama and sitcoms, and two thirds of this programming is broadcast on the CBC. In French, the situation is not much better: Canadian production only accounts for 10 per cent of French-language drama on Canadian television. I can think of no other country in the world that tolerates this level of foreign exploitation.

These low levels of Canadian program content do not reflect audience surveys done by Goldfarb in 1983 and by Audley in 1984 that show Canadians want more Canadian programming; 78 per cent of Canadians surveyed do not want to see more US programming on Canadian television, and 93 per cent feel that private broadcasters, with a net profit after taxes of $89 million in 1984, ought to be required to meet the Canadian content level already achieved by the CBC.

Given the chance, Canadian viewers watch good Canadian drama. When Anne of Green Gables was aired last fall, the CBC drew five million viewers. Private broadcasters, whose licences are predicated on promises of performance stipulating levels of Canadian content, often fail to meet the levels they

promise or meet them by broadcasting cheap game shows and local talk shows in off-prime hours.

At best, it is ironic that when our own markets are so completely dominated by foreign product and foreign distributors and are largely inaccessible to Canadian producers, we can even consider removing existing support for our own industry. The Canadian film and television markets could not possibly be any more open to competition and foreign exploitation than they already are.

What does the Canadian film and television industry have to gain from free trade?

In practical terms, there are no legislative barriers to the sale of Canadian cultural product in the United States now. The problem is of a different order. The United States industry is so large and so concentrated that there is no need for foreign product, including Canadian product, especially a product that reflects Canadian culture. Free trade does not address any of these problems.

Free trade is likely only to cut into the recent Canadian television sales successes in the United States. These foreign sales are in the field of family or children's drama, programs such as The Edison Twins and Danger Bay, which are made in co-production with American companies and are funded in large part by Telefilm Canada. This is exactly the kind of subsidy that the United States will likely demand we abolish if any free trade agreement is reached. If this happens, free trade will eliminate the very programs that have allowed our film and television industry and other cultural industries to develop.

Does it matter if the Canadian cultural industries collapse?

Economically, right now, according to Statistics Canada, the cultural industry is the largest industrial employer in Canada. With four per cent of the labour force, more people work in culture than work for the federal government, including crown corporations. It is the sixth largest industry in terms of wages and salaries and the 11th in terms of revenue, with $7 billion revenue generated annually. The cultural industry is labour intensive, with 66 per cent of its expenditure going directly for wages and salaries compared to the manufacturing average of 20 per cent. We are net generators of direct income for all levels of government. We in the cultural industry pay more in taxes than we receive in grants. Even the Canadian Opera Company in 1983 paid $625,000 in taxes and received grants totalling only $450,000.

Canadians believe in supporting culture. Goldfarb and Audley both found that 80 per cent of Canadians favour federal funding for the arts and think it is important to promote, encourage and develop talent and artistic activities.

What will happen after free trade?

As this committee has already noted, jobs are at stake across the board in textiles and clothing, household furniture, the electrical industry and breweries. Whole industries are threatened--among them, trucking, fine paper and boxboard, food and beverages and some agricultural sectors. Even the most optimistic economists predict that the Canadian economy will become more specialized. The federal Minister for International Trade, James Kelleher, has indicated that, overall, seven per cent of the labour force, almost one million workers, would be forced to undergo a transition.

Given the size of the Canadian domestic market for film and television and the economics of that industry, the North American industry under free trade is bound to become even more concentrated in those locations where it is strongest now: Los Angeles and New York. Canada would likely become a low-cost production centre as long as the Canadian dollar remained weak, but the centres of power and decision-making would be made in the United States.

In the recent past, government support has helped create the beginnings of an industry in Canada. Telefilm Canada, for example, has made it financially feasible for small, independent production companies, such as Atlantis Films, to create internationally acclaimed television programs and to generate work in the Canadian film industry.

This young industry will not survive without government support and guaranteed access to our own distribution channels. Eliminating Canadian content regulations and federal-provincial subsidies and incentives now can only destroy the Canadian film and television industry before it finds its niche in the world market.

Will there be no survivors?

Without doubt, a number of individuals and firms will survive the transition. The success of individual Canadian writers, performers and producers from Mary Pickford to Michael J. Fox in the US market--and the list behind the camera includes Norman Jewison, Bernard Slade, Earl Pomerantz and Lorne Michaels--is beyond question. There will be individual Canadian successes down there and there will be corporate successes in the US market. Companies such as Cineplex-Odeon and Rogers Cable are currently competing quite successfully there.

These individuals, the Canadian creators of films and television programs, will need unrestricted access to the United States market, to the production houses, the distributors and the networks if they are to compete fairly with their US counterparts. In practical terms, free access to the market for the goods and services of writers, performers and producers would mean the elimination of transborder work restrictions and regulations--freedom of immigration and employment--so that all creators of cultural products could work freely in whatever markets they chose.

However, more than an economic question is raised here. The question we have to ask is, without a unique culture, what is Canada. With the Canadian cultural industries gone, Canadian culture will soon follow.

Every society has its own culture, a set of shared meanings, understandings, norms, values and beliefs that shape the actions of its members. These shared understandings are what make societies different from one another, what makes Canada different from Britain, from France and from the United States. Our behaviour as individual members of a society as well as our economic, social, political and artistic concerns as a society are reflections of this culture.

Just as a fish would be the last creature on earth to recognize that it lives in water, we find it difficult to recognize our own culture. All people do. That is why US producers find it easy to argue that they do not export culture, they sell products, they sell entertainment; it has nothing to do with culture. Everything we do and how we do it, particularly how we portray ourselves in the mass media, reflect our culture and our values.

Canada is more than the land, more than a few arpents of snow. The land was here long before Canadians were. Even if we were all destroyed in a nuclear holocaust, the land, the dirt, the stones, the mountains and the lakes would still be here, but would the dirt be Canada?

Already the United States sees Canada as part of its domestic film and television market. The question we have to ask is one that Mel Hurtig raised: Can anyone think of a single adjustment that the US will make to Canadian standards?

10:30 a.m.

Canadian entertainment has Canadian cultural content. It is different from United States culture. If we can no longer tell our stories our way, if our norms, values and beliefs disappear, what have we left? If there are no more Canadian stories, is there any Canada?

Mr. Chairman: Thank you very much. It is an excellent presentation. It raises a question with which you may be able to help us. Given that there is an agenda at the federal level to have talks and to have everything on the table, how can we convey this concern to the Americans? You have pointed out that they do not consider a lot of this cultural, they consider it entertainment or product. How can we convey that to them?

Dr. Lazer: It is a tough one because they really see themselves as only wanting to sell entertainment. It is show business.

Mr. Neil: One thing that concerns us greatly is the person who was chosen as our chief negotiator. I would like to quote from a speech he gave to the Ontario Economic Council:

"Let me acknowledge immediately that I do not feel comfortable in this noneconomic area because it is so extremely difficult to pin down the basis for the concerns in factual or analytical terms. It is even more difficult to test the arguments in a rational, objective manner because they often take the form of dogmatic statements of belief with high emotional content....

"I must say to you frankly that I have not been able to find convincing evidence to support these contentions"--those being that free trade would lead to the end of Canada's culture--"although I have tried hard over many years to follow the debate. While it is not easy to penetrate the emotion, the dogma, the doctrine and at times the fervent religiosity which permeate the discussion, I have not been able to discover a basis for these views in theory, logic, analysis, history or any other discipline. You either believe, as many do, or you don't. I, for one, do not know how to advance this aspect of the debate."

We are in real trouble if that man is the chief negotiator for Canada, because there really are the two factors here, both of which are important. One is a basic economic question. We are talking, as are a lot of other Ontarians and Canadians, about jobs--about our own jobs, yes--but we are also talking about much more, and that is what I think the paper talks about in its latter part: Canada's culture. The two things are connected, they are intertwined, but both of them are important. It seems to us that we have as our chief spokesperson someone who does not understand those issues. One of the things the Ontario government can surely do is to make that absolutely clear.

Mr. Cordiano: Those were some startling numbers this morning, something we have heard before with regard to prime time programming. That leads me to think what is needed is even more effort on the part of all governments to help this fledgling industry. With the figures we have on the numbers of people you employ, it is something we should move on. That is my personal point of view.

Do you think that, if we have trade discussions in some form or another, our negotiators should take a tough stance with the Americans with regard to our cultural industries, over and above some of the things we have heard rhetorically in the last three or four months? I am referring to specific issues you would like to see resolved to protect this industry.

Dr. Lazer: Our negotiator has to take a tough stance because it is very clear to me and, I think, to everyone that the Americans know what they want. They are not afraid to negotiate strongly and to be very tough in trying to get the things they want.

In 1984 Thomas Wyman, who was chairman and chief executive officer of CBS Inc., chaired a subcommittee for the Office of the United States Trade Representative. They were preparing for some General Agreement on Tariffs and Trade negotiations. The CBS study, as it is referred to, is an interview with executives of the leading American companies in the broadcasting, film and publishing industries.

After copyright infringement they defined cultural restrictions, including quantitative restrictions on programming and restrictions on broadcast advertising, as the second most important impediment to American sales in foreign markets. Their instruction to the US Trade Representative was to do everything he could to have those restrictions eliminated. In that report by the chairman of CBS, Canada was seen as the country that was most difficult to deal with in this area.

Mr. Cordiano: When you look at the figures that you have put forward, there is no basis for their arguments.

Dr. Lazer: Their position is that they want it all, and it is very clear in the CBS report: They want all markets everywhere. If I were going into a negotiation, that would be my opening position, too.

Mr. Cordiano: What are some of the royalty figures with respect to some other countries--for example, in Europe or Australia?

Dr. Lazer: I do not have those at the tip of my tongue. I believe the British Broadcasting Corp. limits foreign programming to about 14 per cent. In France the restrictions are even stronger than that; it is almost impossible to get foreign programming in there. Australian restrictions are much tougher than ours. In Canada the legislation is 50:50 in prime time for Canadian programming, which is a much smaller proportion than in Britain, France and Australia.

Mr. Neil: All up and down the line our regulations allow much more involvement by the Americans in our market than any other country in the world. That goes for Canadian content requirements on television. It goes for immigration regulations on the movement of artists across the border and absolutely everywhere. We are much more flexible, and yet, as Dr. Lazer just pointed out, this document by CBS identifies Canada as "the foremost problem country" in terms of the lack of ability to penetrate the market with their product.

There is a bit of a contradiction there, because we know we are the most flexible in allowing it. If you just look at our particular business, television and film, not only do they have direct access by means of cable penetration by US signals but they also have indirect access by means of American programs on our own stations. There is both the direct and the indirect, and this accounts for the overwhelming preponderance.

Mr. Cordiano: One problem was pointed out to us last Friday afternoon by Mr. Epstein, chairman of Global Television. We were talking about the spillover effect of advertising that was done originally within the US. As a result of being able to pick up those networks, they were getting this incredible spillover in advertising, somewhere in the neighbourhood of $780 million. That is what he estimated it to be.

That would impact on our manufacturing or consumer goods sectors because they would benefit from that; that is, if American consumer products were advertised, some of the Canadian products that are manufactured here and trying to compete would have a difficult time because of the spillover effects of advertising. In the long term that would affect your industry, and it has for many years.

Is there anything you have to say with regard to that as a problem that can be looked at in trade negotiations? There is no simple solution, but it is something with which we will have to come to grips.

10:40 a.m.

Mr. Neil: That is a very difficult problem. I do not know how you would ever undertake to regulate that distribution of the commercials. You would have to regulate the distribution of the signals, and no one has ever suggested that we remove all US signals from the Canadian air waves.

In fact, you have an interesting situation in the United States with the first developments of the big superstations. In the case of the Turner Atlanta station, the advertisers argued they did not want to get all the additional markets that Ted Turner was providing to them. They were directing the advertising at one market, that being Atlanta. Ted Turner was providing markets they did not want. Therefore, in certain ways they did not perceive it as an advantage. They changed their advertising campaigns, and now they know they can buy network essentially by buying on Ted Turner's Atlanta station.

Short of absolutely prohibiting the signals I do not know we would ever change it, with one exception. We do have the cable substitution rule. If a Canadian broadcaster simultaneously broadcasts a signal with an American broadcaster, the Canadian signal is substituted for the American signal. The Alliance of Canadian Cinema, Television and Radio Artists has always supported the expansion of that cable substitution rule to include nonsimultaneous transmission. Any time Canadian broadcasters buy rights to an American program, it is their advertising that should appear on that program. It would involve replacing the American signal.

Americans would feel that is yet one more impediment to the level playing field, but we support that kind of activity.

Mr. Chairman: As a supplementary to that, what has happened in Atlanta is that the advertisers eventually accommodated themselves to the station?

Mr. Neil: Yes.

Mr. Chairman: Similarly, here advertising has a spillover effect that may be ignored initially, but it would give the manufacturer a huge advantage.

Mr. Neil: I have no doubt that eventually manufacturers would take advantage of the spillover effect.

Mr. Chairman: As a matter of clarification, you indicated that 10 per cent of French-language drama is Canadian. Where does the rest of it come from? I presume it is not the United States.

Dr. Lazer: It is not the United States. I believe most of it comes from France.

Mr. Ferraro: I found the presentation very interesting. Would you elaborate on something for me? On page 3 you indicate that Canadian programming accounts for 28 per cent of all programming available in Canada and 26 per cent of prime time programming in the English language. Do you know what proportion of Canadian viewers watch that 26 per cent and 28 per cent of the programming? Do you have the figures?

Dr. Lazer: I do not.

Mr. Ferraro: Do you have estimates?

Mr. Neil: No; it varies with the program. One of the figures we do have that is relevant here is the one quoted in the paper from the Goldfarb and Audley studies, which indicates that an overwhelming percentage of Canadians would like to see more Canadian material available to them.

Mr. Ferraro: That is the next question I had. I am sure that not every Canadian is going to watch the 26 per cent of Canadian programming at all times. In fact, if I had to guess--maybe I am wrong--I would probably say that 50 per cent of Canadians would watch English programming at any one time. Is that safe to say? I am trying to get at exactly that. If 78 per cent of all Canadians do not want more US programming and if only 50 per cent are watching Canadian programming, then we are either contradicting ourselves or--

Can you understand what I am trying to say?

Dr. Lazer: Yes. I think people want to see more Canadian programming and they want to have a choice of what to see. This may be tapping an underlying theme that there is no choice.

Mr. Ferraro: Is that a reality or is it a motherhood statement that everybody on an opinion poll will say, "Yes, I am a Canadian and I want more Canadian programming," but those same people will go home and watch Miami Vice instead of something else?

Mr. Abbott: I would like to respond to that. In the last two or three years the numbers are showing us more and more that Canadians are delighted to watch domestic productions. The numbers are getting greater every year. From a news and current affairs point of view, the Canadian Broadcasting Corp. took an educated gamble a couple of years ago by putting the National and the Journal on in the 10-to-11 block. Once a week, in the diary section, the Globe and Mail publishes the top five shows on each network. Week in and week out the National and the Journal are now in the top five.

The litany of dramas that CBC television has done in the last year or so--Charlie Grant's War, Love and Larceny, Canada's Sweetheart: The Saga of Hal C. Banks, and Anne of Green Gables--have had audiences of two, three, four or four and a half million. These figures are absolutely unprecedented. Five years ago, you could not get that kind of audience with a Canadian program.

Four or five years ago, Global was called the Loveboat network. Paul Morton discusses it in the paper this weekend. Global went on a committed Canadianization program in the past couple of years, largely with Atlantis Films and so on. These are films that are playing also on the Public Broadcasting Service in the United States. They are getting tremendous numbers with them.

To be honest, very often the Canadian content of CTV has been largely current affairs and game shows. However, even when they go in with things such as Check It Out, which is a sitcom, they do extremely well. There was a time 10 or 15 years ago when Canadian programming was the kiss of death. It was what everybody watched 25 years ago. We watched Cross Canada Hit Parade, Bob Goulet and Shirley Harmer.

Mr. Ferraro: Don Messer's Jubilee.

Mr. Abbott: Don Messer's Jubilee which CBC variety--

Mr. Ferraro: I could hardly wait for that one every week.

Mr. Abbott: Talk about cultural isolationism. When I was growing up in the 1950s in Montreal, we did not have all the American product coming in by cable; everybody watched CBC television. CTV came in during the 1960s and started disturbing that mix. At the time, CBC really had no competition. CTV came in during the early 1960s and started adding much more American product than CBC ever had. CBC followed suit. That is when we started dropping Don Messer's Jubilee and replacing it with American programming. By the end of the 1960s, we were pronouncing "lieutenant" as "lootenant" and pleading the fifth amendment when we did not even have a constitution to be amended, let alone five of them.

That American cultural invasion started the bidding for our airwaves. It was not until 1970 that we had a one-in-three shot on radio to have our records played. Until the regulations of the Canadian Radio-television and Telecommunications Commission in 1970, you had to do some pretty fancy tap dancing to get a Canadian record played once. Broadcasters--and I was one of them in private broadcasting at the time--were kicking and screaming when the Canadian content regulations came in: "This is going to be the end of private radio as we know it. We are going to go down the tubes. It is all over. One out of every three records we play has to be Canadian."

It was the end of the world as far as private broadcasters were concerned. They played the plastic off Anne Murray and Gordon Lightfoot for the first six months. Then recording studios and recording artists started making records because they had this one-in-three chance of getting on the air. As a result, 10 or 15 years later, people have made absolute careers and international hits. However, they never have a chance to do that until they get on their own airwaves.

This is a very rambling answer to your question. In the past four or five years, with the support of the telephone and so on, more and more Canadian producers have had an opportunity to get on their own airwaves. The

audiences are rushing to it with great numbers. It is not the "kiss of death, let's put on a game show and give away a toaster" to fill our Canadian content regulation any more.

You can very proudly produce a drama that tells a Canadian story about Canadian situations, pronounces "lieutenant" as "lieutenant" and does not talk about the fifth amendment. Then the damned thing ends up on PBS and gets raves from the American critics too. It is a perfect situation. However, it only begins when everybody gets out of the way and we take the opportunity to connect directly with the Canadian public. They love it.

Mr. Ferraro: With an answer like that, you should consider politics.

Interjections.

Mr. Ferraro: I note the wording "78 per cent." I find it very interesting that there are 78 per cent of Canadians who do not want to see more US programming on Canadian television. Do you deduce from that the Canadian viewer wants the present ratio of Canadian-to-foreign left the way it is?

Mr. Neil: To be fair, there were the two components. One of the responses was "Just right" and the other was "Not enough Canadian," which we combined together as that element which does not want any more US programming to be available. There were significant numbers of people who felt there was--

10:50 a.m.

Mr. Ferraro: You are referring to my next question. At the back of your brief we have your fact sheet on the arts. Number 4 under "Public Attitudes to the Arts" says, "80 per cent of Canadians feel that the amount of Canadian programming on television is either too little or about what it should be." I do not know how you can put the two together. If I say to you in response to a question, "I do not think there is enough Canadian programming," that means I want more Canadian programming. If I say to you it is what it should be, that means--

Mr. Neil: In certain contexts you might be correct, but in another context, such as the continuing debate at the CRTC about the further distribution of American signals, the distribution by satellites in some Canadian markets, there is an oft-quoted need of Canadians to see even more American programs. It is in response to that kind of submission, which we hear all the time at the CRTC, that those figures are combined.

Mr. Ferraro: I am having some difficulty personally with putting the two together. Is it possible, because I think it is very important to justify a lot of these statistics, to find out what percentage of Canadian viewers will watch the 28 per cent of our programming available?

Mr. Neil: Talk to BBM Bureau of Measurement and the A.C. Nielsen people and find out.

Mr. Ferraro: You would not have that? ACTRA would not have that?

Mr. Abbott: The rough answer is that it is what they call a share of between 22 and 27. It is similar to what the Trident gum dentists recommend to those patients who chew gum. Of those people watching television at the given time, 27 per cent will be watching the typical Canadian product. That goes up

to 54 per cent for the Cosby show, which is broadcast simultaneously on both American and Canadian stations. If you consider the breakdown of availability --three American networks, two Canadian networks and at least one independent, a choice of six stations--a 27 per cent share is strong.

Mr. Ferraro: It is interesting. Mr. Traficante just gave us the CBC thing. It shows, for example, the availability of Canadian and foreign programs on English-language television. Available Canadian program hours now make up 28 per cent. Of the time spent--this is from Monday to Sunday, 6 a.m. to 2 a.m.--29 per cent of Canadians will watch Canadian programs. Either we are the biggest hypocrites in the world or that was a lousy study, if 78 per cent say they want more Canadian programming.

Mr. Abbott: Yes, but 29 is--

Mr. Ferraro: Who is kidding whom? I am not taking it out on you, but it makes no sense to me.

Mr. Chairman: They apparently said 29 per cent and falling.

Mr. Abbott: And falling. Yes, it is.

Mr. Neil: Let me ask you a question.

Mr. Ferraro: Is it logical what I am saying?

Mr. Barlow: That was some Nielsen report.

Mr. Ferraro: No, this was CBC.

Mr. Neil: Let me ask you a question. We keep on talking about that percentage of Canadian material, which is on Canadian signals as well. Even if only 28 per cent of Canadians would ever want to watch Canadian programming, even if that is absolutely true, and the other 72 per cent would never watch it, there is surely an obligation to have material available for them.

We have a proliferation of signals in this town. We can get as many signals as anywhere in the world. We can get enormous numbers of direct signals from the US. We can get all the imported programming, it seems to us, we want. If Canadians want to choose American programming, they have that option; it is available to them all the time.

However, if they want to choose Canadian programming, it often is not available to them. They cannot turn on CBC, because it has Remington Steele on. They cannot turn on CTV, because it is simulcasting Bill Cosby or whatever. It is the Canadian programming they do not get. In many ways the problem for Canadian producers is not to have access to the US market; it is to have access to the Canadian market, to the Canadian viewer. When there have been good-quality Canadian programs available as an option, Canadians have watched in huge numbers.

Ms. Hogarth: As five million viewers watched Anne of Green Gables.

Mr. Cordiano: The more you do it, the better the quality is.

Mr. Ferraro: I am just playing devil's advocate. I fully support your position.

Interjections.

Mr. Ferraro: Are any of you guys in my constituency?

Mr. McFadden: Mr. Ferraro will buy you lunch.

Mr. Chairman: Something you might want to think about in answering further questions is that it has been pointed out to us that drama productions in the US are extremely expensive. Dallas is $1 million an episode. That kind of budget would never conceivably be available for Canadian productions.

Mr. Mackenzie: I have a feeling that if we get sidetracked into the percentage arguments Mr. Ferraro was making, we will be lost before we ever start. I do not think that is the issue here at all.

In your brief you state that we have a number of props or supports--federal and provincial subsidies, tax incentives, Telefilm Canada, the Canada Council and the Ontario Arts Council. It is accurate to say that if television is going to survive in this country, at least until there is more development than we have seen up until now, these support programs are necessary. Is that not the bottom line, that without them we would not survive as an industry?

Dr. Lazer: Exactly.

Mr. Mackenzie: The same thing applies in books or what have you. Therefore, to get into the numbers, when we do not have the percentage of our programming on, does not do us a damned bit of good. The point I want to make to you is simply this: You ask that culture, and I think it is essential, be taken off the table. But it is the broad picture we have to look at seriously. Nobody will take any item off the table. We were told very clearly when we were down in Washington that this will not be the case. It has been repeated by Mr. Yeutter and a number of people since. Everything will have to be on the table.

If you were able to get your request in terms of your brief and we could somehow decide that culture would not be on the bargaining table, you could bet your bottom dollar that where the US has a substantial deficit with us--for example, the auto pact, which is probably the next heaviest area in terms of jobs--they would want to take a look at that. They are not going to make concessions that allow us to have a little more incentive or to continue the incentives or the subsidies in culture without some quid pro quo on the deal.

It is a much broader picture that you have to take on. It is not just the hope that culture is not on the bargaining table. It seems to me that part of your tack has to be on the whole question of comprehensive free trade negotiations. If these incentives are necessary for the industry to survive, we do not have any alternative but to take on this issue generally because somebody else will have to pay the price of leaving these incentives there for culture. It is as simple as that. I hope your industry does recognize that. You have a key role to play. People want Canada as a separate entity and not as the 51st state of the union.

I do not know whether that thought has hit you. There is no indication that we can carve out certain sectors if we get into any free trade talks.

Mr. Neil: While we do not have a detailed position that opposes the entire free trade talks, we are part of a broader coalition which opposes free trade. Mr. Abbott hosted a cultural evening not too long ago which included representatives from various industries who opposed and talked about the impact of free trade on their industries. We understand that it is a broader

question and that art is only one industry of many. On the other hand, we can talk with much more confidence about cultural industries than we can about textiles, the auto pact and so on.

11 a.m.

Mr. Mackenzie: One other point may be worth taking into consideration. Never mind some of the remarks of Mr. Hurtig or some of the others; Mr. Macdonald's remarks in the Royal Commission on Economic Union and Development Prospects for Canada very clearly argued in favour of the comprehensive free trade talks on the basis that either we take this leap of faith or we are going to be faced with a planned economy.

It strikes me that the kind of incentive that is needed to build up and protect the broadcasting and television industry in this country is a little bit of planning. That is probably what is needed on a much broader basis. One of the interesting things before this committee is the number of people on both sides of the issue who have pointed out the lack of a clear industrial strategy or policy in this country as to just what is important to us as Canadians to protect. I see that as being broader than just industry. Most of the focus has been on industry, but it certainly covers our cultural identity as well.

Mr. Chairman: The exception to what you are saying might be if there were some way we could get across to the Americans that this is something unique about Canada that has to be looked at quite differently than economic problems.

Mr. Mackenzie: It is an economic problem. You cannot separate it. We are buying. When we protect or try to develop our own broadcasting, books, films, you name it, it is a question of money. If we are going to protect our ability and build it up even further, there are going to be some offsets. You can be sure the offsets will come in the areas where we have a surplus in trade with the US. It is that $20-billion surplus they are looking at, and that is only in two areas, our natural resources and the auto pact.

Mr. Abbott: There is also lobbying in the US in favour of free trade with Canada, particularly because of the magnitude of the cultural industry here. It is a great advantage to American film producers not to have any further regulation of our cinemas. They are trucking money out by the wheelbarrow. They have 97 per cent of our screen time. They do not want any more regulation here. Perhaps free trade would give them 100 per cent of our screen time.

It would be very convenient for CBS, ABC and NBC to have affiliates in Toronto and in every other city across the country. It is already bizarre to sit in a hotel room in Saskatoon, turn on cable television and watch ABC out of Detroit through Cancom.

A phrase we have used in ACTRA over the years is that we are a culturally invaded country. We really are. Let us face it, Americans love invasions. It is the American way of life. You do not have to go with this Yankee imperialist business, but Americans simply believe they have the best way of life in the world and they want to share it with the rest of the world, sometimes in their own vicious way. It is not hostility towards Canada. This is simply the way Americans work. Why can we not be the 51st state? It would be so much easier. There would not be all those annoying regulations we have to put up with, and as Americans we would make more money for all our wonderful showbiz industries.

Mr. Neil: I do not know if the committee is aware that in our industry Americans can dump their product in Canada. Both Canada and Mexico are considered part of the domestic market in all the collective agreements that govern production in the American film industry. When an American producer pays the original fee, that includes domestic release rights in Canada and Mexico. In all our collective agreements, the US is considered a foreign market and very high residual fees are payable when a producer wants to sell programming in the US. That is not true reciprocally.

Mr. Mackenzie: One of the real tragedies in this whole debate we are forced to get into, and the reason these groups are before us, is that the initiative for the free trade talks, as I see it, did not come from the Canadian people. It certainly did not come from the US Senate or the US Congress. There was no pressure there at all. The pressure for these comprehensive negotiations came from the executive branch, Mr. Reagan and Mr. Mulroney.

Mr. Chairman: We have heard that opinion, Mr. Mackenzie. We have four more questions and only about 10 more minutes.

Mr. McFadden: I will deal briefly with some background information I would like to secure.

First of all, I imagine the witnesses have seen our interim report. We have endorsed the concept that the Canadian culture industry should not be on the negotiating table. That is our position. To some extent you are preaching to the converted on that point.

Mr. Ferraro raised the question of wanting to see more Canadian programming. He dealt with the whole issue of what Canadians want. My recollection, having worked in this area of law, the entertainment area, is that this has been a recurring statistic that I think goes back to the 1960s when I did some work for the CRTC.

What happens is that there is a gap between people's desire to watch it and the quality of the programming they are receiving. I noticed that you mentioned Anne of Green Gables. That is a show of excellent quality. People will watch it if it is good quality, but they will not watch shows of poor production value. It is incumbent upon the industry to keep working on shows of the quality of Anne of Green Gables. Canadians will watch it because they are interested in watching in their own locales.

Ms. Hogarth: One of the problems is the financing of these kinds of productions. Mr. Cordiano and Mr. Mackenzie were talking earlier about the amount of government support and the kinds of things that need to be there so that the culture can exist in Canada. We have just barely accepted the fact that the federal government cut $85 million from the CBC last year only to hear last week that they are cutting a further $48 million. For Toronto performers, since the vast amount of production done by the CBC is done here, this is extremely serious.

Not only do our members work in broadcasting and in film and so on but they also work in theatre and in the arts generally. I would like to point out that the Ontario government's per capita funding of the arts is the lowest of any province in this country.

Mr. McFadden: I want to ask about two or three statistics. First, on page 5, we have the reference to employment revenue. One of the points I have

been trying to make since we started here is the growing importance of the service sector to the economy. These statistics reinforce the case I have been trying to make. First, I wonder if you could tell me to what year you are referring? It was not clear on the basis of statistics here whether this was 1985, 1983 or what year.

Dr. Lazer: I believe it is 1983 or 1984.

Mr. McFadden: Second, what has been the trend? Do you have any information you could provide in terms of the trend over time in revenue or employment? Have you any comparative figures for the last 10 years?

Dr. Lazer:: I do not have comparative figures. My sense is that the numbers are increasing and that more people are employed in the cultural industry than have been in the past.

Mr. McFadden: That would be my impression. Even in the face of all this difficulty, we have been steadily moving ahead at least.

Dr. Lazer:: What you have is an industry of people who are tremendously committed to the work they are doing. They work in it because they believe in what they are doing. They love it. They do not get paid a lot for it but they believe they have things to say and stories to tell that are important to all of us.

Ms. Hogarth: We believe we have merely a tiny total. Rather than giving up that total, we would like more.

Mr. Abbott: It is important to add that nobody subsidizes the arts more than do the artists in Canada.

Ms. Hogarth: The amount of income tax, or tax generally, that the artists pay far outweighs any amount of grants that are given to the arts.

Mr. Abbott: The wages that they accept--

Ms. Hogarth: In addition, there is the seven per cent provincial sales tax on all goods and services that all industries are using in order to produce their product.

Mr. Abbott: Here is a statistic for you: Between 1971 and 1981 the arts labour force increased by 74 per cent. The Canadian labour force, as a whole, increased only 39 per cent during that time.

Mr. McFadden: I expected to hear that. I could not help but think you would join the health care system and colleges and universities in suggesting that you are underfunded.

Interjection.

Mr. McFadden: I was just observing that they are joining the health care system, the university system and education in suggesting that they are underfunded.

Mr. Abbott: The artists of Canada will not begin double billing for another year, though.

11:10 a.m.

Mr. McFadden: I am awaiting a meeting with somebody who says he or she is overfunded. I have not met those people yet but I assure you that some day--

Mr. Cordiano: You never will.

Mr. McFadden: You talked a bit about the legal aid plan. One thing I would like to raise is the issue of trade opportunities for this industry since our committee's mandate is to deal with trade and not the cultural industry per se, or how to develop the cultural industry, although that is a part of it. Obviously, some of our film is getting exported. Some of our recordings are as well. Could you give us any information as to the trend line in exports? Could you also give us some indication as to what the government can do to be helpful to encourage further exports?

I know we earn a fair bit of money from exports in some areas such as royalties for music publishers, artists, and so on. Can you give us some recommendations in that area? Can you give us some ideas of the trend in that?

Mr. Neil: That is an extremely difficult one because of the nature of film and television production. On the face of it, I suspect you would find that there is much more export of Canadian material now than there has ever been, but let us define what that Canadian material is. Often, what we are producing in Canada are basically on-location American production or complicated coproduction arrangements where there are certain presales in US markets.

Even if we factor all of those things in and exclude them for the moment from any calculation, I suspect you would still find there has been a growing export of Canadian television and film material if only because the US had its boom in the number of signals available to the American market only about 10 years ago.

We had the boom much earlier. We were cabled much earlier than the US market, so we had the proliferation of signals that the Americans are only seeing now in some of the smaller markets. With the proliferation of signals comes a great desire for material. The American industry, to this point, has not been able to gear up to provide all of that material to itself so there has been a certain increase in the export.

What can the government do? I think an expansion of some of the existing programs would be helpful, such as Telefilm Canada which has offices in the US that assist Canadian producers when they are trying to put deals together with American producers. Those kinds of programs are definitely helpful. Some of the provincial programs are definitely helpful. Some of the film departments of the provincial government, and also even in the city of Toronto, attempt to bring some of the American money to Canada where it can combine with the Canadian money and produce programming that can be exported. Those kinds of programs are definitely very helpful. Specific information? I do not know if any is really available on the exportation of Canadian programs.

Dr. Lazer: I would like to add one thing to this discussion. When you consider programming, films and records, we are always seeing the end product. I am a writer. I write a script. I sell it to a producer. Meg Hogarth represents performers. What is the product she sells? Her product is herself, her talent and her skill. We have to take into account all of those products that get sold along the way in the industry and not just the final product. Programs like the Telefilm Broadcast Production Fund have made it easier for

scriptwriters to sell products that will be seen around the world because of the need for most producers to structure a full production deal with a foreign presale before they have enough cash to get the Telefilm money.

Any program that wants to take into account how to increase the sale of product in the cultural industry has to consider the previous sales that go into a finished product, such as the script, the talent and all of that.

Mr. McFadden: In summary, I gather what you are proposing is that, first, you want the maintenance of the current regulations to protect the Canadian industry. Second, you can also see some potential in an export market and you want to see the existing programs expanded if possible.

Mr. Neil: And the intermediate step, which is further support and encouragement of the Canadian industry in Canada to provide the basis for that exportation.

Ms. Hogarth: Exactly.

Mr. Abbott: That is critical, because what we export is what we first make for ourselves. The short answer to why there is so much export recently is that we have been making more for ourselves recently.

Ms. Hogarth: If even a small percentage of the money the American film industry garners in this market--the 97 per cent--were reinvested in the country, we would have a great deal of capital to make even more and better product.

Mr. McFadden: Thank you very much.

Mr. Lane: Thank you for a well-thought-out brief. I was very supportive of it and I would think most Canadians are. There is one quote here, though, that arouses my curiosity. It says, "The Canadian film and television markets could not possibly be more open to competition and foreign exploitation than they already are." If that is a fact, then why are we worrying about free trade talks? If we are in that condition already, what are we going to lose?

I think it begs another question. Why are we in that condition now? Part of it is a lack of finances from the two levels of government. Is there another part that says the content does not have the quality Canadians want so that is why they do not watch it? Is there another answer? That is what I am asking.

Dr. Lazer: I think much of the answer in the film industry is historical in that the product originally was created in the United States and sold here in Canada. The American corporations own the theatres--Famous Players was originally an American corporation--and accepted only product from certain studios. It was a vertically integrated market. The vestiges of that still remain today in terms of booking practices, where the theatres look to the US for the product they will show on their screens.

What we are fighting for is to increase the three per cent of that market we already have in our own country because that is what we are making our living on.

Mr. Lane: It arouses my curiosity when we talk about Anne of Green Gables, Don Messer and football. Are we replacing those kinds of attractive

programs with other attractive programs or are we losing out to the US?

Dr. Lazer: I think the quality of programming that is being produced now in this country is better than it has ever been.

Mr. Barlow: I too would like to thank the delegation. I think it recognizes that we have some damned fine talent in Canada. I had the opportunity of listening to a member of your group by the name of Don Herron on Saturday night. He was with his Parry Sound outfit speaking to the Rotary club of which I am a member. He spent an hour entertaining us. That is only one name in one area and that is in the comedy field. We have a lot of great talent in Canada and here in Ontario. If the free trade talks do not continue, if they stop right where they are, what happens to your industry? The way it is right now, with this flow of American talent through the television medium, do you feel there is anything your industry can do to help itself survive?

Mr. Neil: Let us, for the moment, assume that the American senators are successful in preventing any free trade discussions. In our view, we still need to have a lot of thought and attention paid to our industry. There are some very disturbing signs for us on a couple of levels. The first and most obvious are the significant cuts that are being meted out by the federal government on key sectors of our industry. The CBC cuts are devastating in their impact on Canada's performers and writers.

11:20 a.m.

In addition, there are signs that we find very disturbing, which are moving us more into the deregulation area in the broadcasting and film sectors. The CRTC seems to feel now that its role is not to regulate but to deregulate an industry. They are allowing more and more American signals to be available, further deluding the Canadian audience. These are some of the very disturbing signs we see.

We think there has to be a renewed commitment at all levels to Canadian production in our field. That commitment has to come from the federal government, the provincial governments and everywhere else. In that light, we were pleased to see the Ontario government's decision to create the Ontario Film Development Corp. and we think that is a useful step, however small.

We also encourage things such as additional money being made available for TVOntario so that it can make a greater commitment to programming. It has a facility that is not the best and yet with limited funds and limited facilities it has been able to produce programming of international quality. It is the most highly respected educational producer in the English-speaking world. We have to renew commitments to organizations such as that.

Mr. Morin-Strom: I have a couple of concerns. First, I wonder how we can simply isolate our cultural industries from this whole debate. We hear platitudes from many people in government, including the federal government and people who are sitting on this committee, saying, "We support cultural industries and the cultural industry should not be on the table." When it comes down to specifics, how you keep them off the table and how you define cultural industries and ensure that there is no substantial threat to our cultural industries, that is quite a different matter than saying you support the principle of protecting our cultural industries.

There is a very serious problem as to how you specifically define them. In terms of talking with the Americans, the problem in that vein is they do

not view them as cultural industries at all; everything in their view is economic. They want to define trade agreements and trade relationships, what they view as subsidies or unfair restrictions on their businesses, as economic issues. I think that is the major problem.

Second, and even much deeper than that, is the whole issue of not just cultural industries but a cultural identity as a whole. Even if you can isolate cultural industries and break off effects on that part of our economy in this agreement so that there are no direct implications, I have very strong concerns about the effects of a free trade agreement on our culture in a general sense--the point of having cultural industries and whether we could have such a thing as a Canadian cultural industry in a free trade scenario where we move towards economic integration with the US. As you all know, a free trade agreement with the US requires substantially all areas of the economy to be included in the free trade arrangements.

Mr. Chairman: Could you get to your question?

Mr. Morin-Strom: Just let me complete it. We have had quite a lot of comment from quite a number of members already and I think we have to get at this issue of the effects on our culture as a whole of a move towards economic integration with the US and the implications on our social and political institutions and whether that ultimately threatens our own cultural identity and whether we can have distinct cultural institutions in the future under our free trade scenario.

Is it possible to maintain a distinct cultural identity and distinct cultural industries under a comprehensive free trade agreement with the US?

Dr. Lazer: You raise an interesting question. One of the problems we always have in using the term "cultural industries" is that in a sense it distances us from the issue. Cultural industries talk about the creation of culture, and that culture is created not just in the cultural industries. Our culture is us. In a way I am reminded of Pogo who said, "We have seen the enemy and he is us." We must recognize that by letting go of our culture we weaken the institutions that let us perpetuate Canadian values, Canadian beliefs and Canadian norms.

When the only information that we get in the mass media has an American cultural content--and it is not anything new, as Roger mentioned before--there are a lot of people in this country who believe that we have a fifth amendment and who believe when a policeman arrests you he has to read you your rights. Culture is more than that. Culture is not that I listen to classical music in my car when I drive home. It is how we eat and what we eat. It is the difference in mass media between Sesame Street and the Friendly Giant. It is the difference between whether you move your fork from your left hand to your right hand or not. All that we are is shaped by our culture and how we act is a manifestation of that culture.

By weakening our cultural industries I believe we put another nail in the coffin of "Canadian culture." If we lose our own identity, what becomes of Canada? If there are no Canadians living in Canada, the only people who live in Canada are Americans. Are we Canada and does it make a difference in the end? I believe that is the step we have to concern ourselves with because that is the way we go. I do not think there is any way to stop it once you take that first step.

Mr. Abbott: Our culture is such a broad ingredient of who we are and

what we do that we have to ask ourselves whether the murder rates in Miami, Detroit and Los Angeles are part of our culture too. Do we want them to be part of this country?

One of my colleagues, Dave Broadfoot, does a lengthy discussion on the differences between Canadians and Americans. He says: "Yes we are different from Americans. Americans have organized crime, we have provincial liquor boards." It is true. Once he starts enumerating these 20 or 30 differences, you think, "Yes." There was a time when Canadians wanted to be Americans. I believe that time has ended now. I do not think we are a nation of closet Americans any more.

We have 14 years to prove that perhaps Sir Wilfred Laurier was right. It may happen in the final 14 years of this century that we take more and more pride in who we are and no longer want to be swallowed up. All of that is part of our culture. In answer to your question, yes. If free trade means a level playing field and that means deregulation of our broadcasting, the elimination of subsidies such as Telefilm and of our version of public broadcasting, which is government-supported broadcasting such as the CBC, TVOntario and Radio-Québec, the effect is going to be immediately devastating, and devastation indicates unrecoverable.

When you take away that regulation and subsidization, it is the same as if you took away subsidization from airports or highways. There would be nothing to fly into after a year or two. In our industry it is going to be immediate. Just look at all our broadcasting services, all our communications services. Take away Bill C-58. What happens to Maclean's magazine? What happens to CITY-TV? All that support.

11:30 a.m.

There is nothing to be ashamed about in having a culture which is subsidized by the people. Who better to subsidize it? As I said earlier, nobody does it more than the artists, but how appropriate that we all use our pooled tax money, in addition to building domed stadiums and financing new uniforms for the armed forces and so on, to subsidize our cultural industries. It is a marvellous thing. Why should we stop it?

Ms. Hogarth: Not to take away from any of that but to add a postscript to what I see as a political implication is the mere fact that we are talking about something that is an executive decision and not the will of the people of this country. That this is something that has been imposed executively and not in a parliamentary way is already a threat to what I see as intrinsic to Canada, which is our parliamentary system of government.

Mr. Abbott: We have a Prime Minister who says, "Not only do Canadians want free trade, but also they are willing to pay for it."

Mr. Chairman: Thank you very much. It has been a--

Mr. Mackenzie: There is one individual here who is a member of the House and who has wanted to ask a question. He also happens to be the critic in this area for a party. I have never been on a committee yet where another member visiting that committee has not been able to ask a question, even though there are tight time constraints.

Mr. Chairman: I recognize that Mr. Grande is here. The problem is that we did schedule two presentations today and we are running overtime now on this one.

Mr. Grande: With your indulgence, Mr. Chairman, my question will be a true question.

Mr. Chairman: All right, 30 seconds.

Mr. Grande: If you bear with me, I want to begin with one little phrase. As you stated, the problem in terms of our film industry is one of production and distribution for our internal market. We will forget about the export for the time being; we want to strengthen our internal market. Towards that end, what would your reaction be to a box office levy for foreign films that are shown in Canada?

Mr. Abbott: Would that levy then go to finance domestic production?

Mr. Grande: Exactly.

Ms. Hogarth: It would depend on how big it is.

Mr. Abbott: They have felt that, historically, but it is an excellent idea. It worked magnificently in Great Britain from the mid-1930s to the mid-1960s. That very practice occurred with all American films screened in Britain. A chunk of the box office revenue went directly into a British film production fund. That is why there was a British film industry during those years. That levy disappeared in the mid-1960s and the British film industry disappeared at much the same time. Yes, it works.

Mr. Neil: When we met with the federal task force on film, we suggested that a levy would be the route to go. We prefer that to any type of quota system on screen time because it is a more positive alternative to generate funds for production. We are absolutely convinced that if the production is available and there is some access to the distribution system, Canadians will watch Canadian films. The key is to get the money for the productions.

Ms. Hogarth: The key is also to get the theatres to be able to show the productions when you have them.

Dr. Lazer: There is no reason to limit that to box offices and theatres. Why not include foreign television programming as well?

Mr. Abbott: You will have Jack Valenti on your back for months.

Ms. Hogarth: Would that not be nice?

Dr. Lazer: Speak for yourself.

This is exactly the type of issue that Thomas Wyman spoke out against in the CBS report for the Office of the US Trade Representative. These are the restrictions that keep us from reaching foreign markets: box office levies, taxes on foreign programming and all of those.

Mr. Grande: But they are looking after themselves. We should look after ourselves.

Mr. Chairman: Thank you, Mr. Grande.

Thank you very much. You have picked perhaps the most emotional issue in the whole gamut of free trade issues. We are very much aware of what you are saying.

Mr. Abbott: There is more motherhood to it than stumpage and things such as that.

Mr. Chairman: We apologize for the delay to John Barrington, president of Comac Communications Ltd. Would you come forward please? I understand Mr. Barrington has a presentation he wishes to make, following which he will provide us with copies of his recommendations.

JOHN BARRINGTON

Mr. Barrington: It was very interesting to listen to the comments that were made this morning and to come forward as a representative of a company that produces magazines in Canada. I am currently president and chief executive officer of Comac. We took this company over in July 1985.

I am here representing my own opinions. I would not presume to do one of two things, if any of you have ever known any editors. Wandering around and making comments on behalf of my editors would certainly invite my phone to melt late this afternoon. I would like to cover a number of areas and give you some background on Comac, which will either put you to sleep or give you some information that might give you some idea where we are coming from.

We are the second largest publisher of consumer magazines in Canada and we have eight titles: Homemaker's/Madame au Foyer, which has a circulation of about 1.4 million, Ontario Living, Western Living, Vancouver Magazine, Calgary Magazine, Edmonton Magazine, Career Woman Plus and Alaska Airlines Magazine. We have about 200 direct employees. Revenues are in the range of $25 million. Directly and indirectly, we create between 750 and 1,000 jobs in Canada. We have offices across the country, including Victoria, Vancouver, Edmonton, Calgary, Saskatoon, Regina, Winnipeg, Toronto and Montreal.

While large in the consumer magazine publishing area, we are relatively unique. Let us get this into context as clearly as possible: We are the second largest consumer magazine publisher, but we are small to medium-sized in this country. In publishing, we are not anywhere near the size of a Southam or a Maclean Hunter. We are talking factors of 10 to 20. In terms of media, we are not a dot on the spectrum. We are nowhere in comparison to Selkirk Communications, Maclean Hunter, Baton Broadcasting, Rogers Cablesystems, Southam, etc.

This puts us in a slightly different position. We are not a small, runoff publisher, of which there are plenty, and they are very entrepreneurial. However, we are not a large and well-funded, established corporation. In fact, this company was bought from a large organization. Our current situation at Comac is that we are 100 per cent owned by a Canadian group which stepped in to save a company that was quickly sinking.

I will explain the word "quickly," when we are talking about culture. Magazines and the idea of magazines are no more than ideas that are implanted in people's heads. In other words, that is how Time, Maclean's and Homemaker's Magazine work. What happened with these Canadian magazines is that the community that largely pays for them and for all magazines, the advertising community, which is a small, tight community, lost faith in this company. No matter how much money was spent on it, the company ran into serious trouble.

To explain a bit who we are, my partner and I are part of the consortium that bought the company. We have a long background in publishing. We have worked in both Canada and the United States, with the largest publisher in the United States and the largest in Canada. We have worked with all of them.

We are not in the old guard in media or magazines. We find the current Canadian climate kind of cosy. We understand how it works. We are entrepreneurs who like to think we are at the leading edge of this medium. We are aware of the revolution that has been undertaken in communications, in media in particular, and it will continue to accelerate. There is absolutely nothing that can be done to stop it, in our opinion.

11:40 a.m.

That is the outline of who we are. I would now like to step to a perspective of culture and communications in Canada. At the beginning of my remarks about our background, I referred to what you have already heard a number of times, but I ask you to bear with me because it is germane to my comments. We have utilized two fundamental mechanisms to support our culture and our media communications in Canada: subsidy, i.e. the Canada Council to the CBC; and regulations, specifically Bill C-58, the amendment to the Income Tax Act and the CRTC.

Bill C-58, which is the part that affects magazines most directly, protects television and radio, as you have heard over and over, by not allowing tax deductibility for ads placed in the US. In addition, Canadian cable companies are required to overplay Canadian ads on American stations when both stations are operating simultaneously. As I commented this morning, I am sure you are well aware of this.

With newspapers, we have some ownership restrictions and some limited content rules. With magazines, the advertisers cannot deduct advertising unless the magazine is a Canadian magazine. A Canadian magazine is defined as one which is 75 per cent Canadian owned, is edited by Canadians and in which any single issue has 80 per cent Canadian content. That substantially means it is written and edited by Canadians and must be printed in Canada.

In addition, there is another control mechanism that the government has used. Controlled circulation magazines, which are largely ours and subscription-based magazines, excluding newsstand magazines, are regulated by postal subsidy. This is not a formal regulation, but the Newsweek example was a statement to the Americans that any other magazines that wanted to qualify as Canadian magazines for postal rates were not going to be allowed to do so. It is fairly punitive if they should get into it.

My perspective on freer trade is that you are really dealing with the world situation. Several people said that to attempt to disconnect any part of this by bringing culture away from free trade or trade away from, specifically, the United States, is nonsense, and I have to agree with that. It is an unstoppable momentum that is sweeping the planet. You cannot disconnect anyone.

The idea that we need a little more protectionism seems to also get into our arguments about the Third World. These are the people who are more and more taking advantage of the fact that they have access to our trade areas in textiles, shoes and everything else. You cannot go about disconnecting them.

The only other thing you can do is insist on world wages at a certain level that makes us competitive. Our wage situation is a fundamental of our culture and our standard of living, which is not going to change. These people have carved their way in. Among the most interesting examples in the last collection we have is the old example of Japan, which has come along. Now Japan has a strategy to move away from cars because Korea has become much more competitive and the Japanese will never beat the labour there.

I will bring up another example, since none of these are really Third World countries. There is a company operating out of Los Angeles which now does software North America-wide. Their programmers spend two years in Canada and two years in the US, and they are all in India. You are not aware of that when you are buying their software services. This global interconnect and the strategies that go with it suggest a situation that is far larger than negotiation with just the US.

In my opinion, in Canada's position it is ludicrous to think we can protect industries that are not competitive and prosper. We can use subsidies which, if they go to an industry that is never going to be competitive, is disguised dumping. The only way we can win at that is if we have a subsidy and we do not ever take over the market where we can raise our prices. By putting a subsidy on a product, you are asking our export markets for Canadians to pay a certain amount of their dollars so people can buy them.

The only way ever to prosper from that is either to become more competitive, which is a fair assessment and a fair strategy, or to try to control the market where you can then raise the prices to the level you want by knocking everybody out. Canada is not a strong enough country in a number of markets to do that. It is silly to consider it when we see that the Organization of Petroleum Exporting Countries can no longer control its own market for oil, while having more than 50 per cent of the world reserves in the free market.

As to the Canadian opinion on freer trade, in my opinion, the only reason we would want it is that, watching what people vote with, they vote with their dollars and their feet. We buy their cars, their TV shows and their beer. To the dismay of a few, we buy Italian shirts and Japanese cars and we watch American and French films.

I can figure out only one reason for this and I will be talking about this later. It is because they are effective. People are not buying products they do not like. They are not displacing Canadian products for any other reason than they feel they are getting something worth while.

We have a danger in this country and in the business area. For those who utilize nationalism to lower competition and increase corporate concentration in the media area, there is absolutely no question of this. The media is concentrated in fewer and fewer companies as we go along. Competition is not increasing. As I tried to point out, certainly in the magazine area, we are the anomaly. If we are looked at as a medium-sized company in any way, below us are a lot of very small companies that are very entrepreneurial and whose payout will come when they get sold to Maclean Hunter, Southam or Torstar. That is how it works.

We look at the situation as being comfortable for a large corporate entity in this country. The rules are working fairly well. Profits are high. Competition is not great and the strength is not there to fight it.

On the other hand, there is also a cultural power group which is very small because of the nature of the country. Representative organizations come forward by using fears about Canadian culture and Canadian national identity. This results in the concentration of power in our cultural and representative organizations to a small group of brokers. They have a club. We are the minority here and we consider ourselves true entrepreneurs, notwithstanding everyone else out there.

I am not concerned about whether our politicians are accepting the straw men I see and hear in the newspapers. No one wants unilateral free trade with the US. In my mind, no one wants to etch in stone any of the steps you take. No one wants to be unable to bail out if we find that any new direction we take in practice is destroying our country. These are commonsense things. I see a lot of straw men and a lot of "one alternatives." I see a lot of fear that we are all dead in the water if we make one step in this direction. These are red herrings.

I ask you to bear with my particular style. I am very frank and a reasonably emotional person. To me, these ideas are perpetuated by hypocrites who are feathering their own nests. It is an old story which I kind of like. People want more prosperity, greater opportunity, new hopes and a better life. They all know that any negotiation must not lock us in such that our national identity will be jeopardized. This is common sense. I have not met anyone, and it does not matter where he comes from, who wants to do this in such a way.

What I read, the tenor of what I read and the implicit message is that there is no possibility of negotiating anything without jeopardizing the entire country's identity. I think they say in unison to the politicians: "Negotiate. Be flexible and experiment. Be positive, tough, ever vigilant and compromise. Try to make both sides a winner, but above all, get on with it."

The markets have spoken for free trade in the cultural and communications areas in Canada. Having had some brief experience with the film industry and being in the media, I agree with Bob Fulford's comments in Saturday Night. Every distributor I have ever met is totally dollar-oriented. If distributors of any film, whether from Zambia or Canada, can make a buck off it, they will make a buck off it. An example was the wonderful distribution pattern of Strange Brew which was a terrible bomb in the northern United States, but found a little sector in Texas. The distributors hammered it home and made every dollar they could. There is no distributor I have ever come across in Canada who is not hated by the actors, the producers and everybody else. However, if you ever get into the theatre and understand how the economy works, you will find out--

<u>11:50 a.m.</u>

<u>Mr. Barlow</u>: Is that a bomb?

<u>Mr. Barrington</u>: I hope not. Distributors will push any film they can. When they hit a surprise French or Canadian film, they are in it for the dollars. It is a real nickels-and-dimes business and they make the money from the popcorn.

With respect to television broadcasting, the worlds of Miami Vice and football have spoken. I think Anne of Green Gables was great. I do not want to give up my passport, so I also think it was wonderful. However, the point is that this is a huge industry capable of naming dollars, of which you are all well aware and have gone over and over.

You are grappling with a very difficult question. How do we keep the money flowing to have the type of industry that will consistently produce the amount of programming that will compete with the United States? I do not think there is an easy answer for this. The Australians have come up with an advantage, which is 6,000 miles. It is very helpful. We are beside the United States and as far as I know, no one has put forward to me a proposal to try to saw this place off and move it farther away as an alternative.

We have gone far enough that, as a medium-sized company, what I see is wonderful. I see stateism. You have to deal with the print media to start to understand what I see in the electronic move. I see a state-run television network that is very strong. Its first mandate and objective was to tie this country together. In my mind, it has become like the CPR. In the course of tying it together, it is also making decisions about what should tie it together. This is always the situation with any sort of power you concentrate, especially when it is removed from the public domain. There is no way to judge the Canadian Broadcasting Corp. and there is no way to get rid of it either, because we are not big enough. We have to have it.

I will bring a specific example: the development of new-styled shows that have the flavour and appeal of reportage and take editorial platforms for their journalists. I have eight editors in the print media across this country and one in the United States. When I see what is happening because of the sheer concentration of power, both in our state and our public media, I suggest that keeping the stage the way it is totally eliminates the chances for companies such as mine to build. Perhaps I should say "severely" because I will be brought to task if I say "totally."

Meanwhile, when we look at the Canadian Radio-television and Telecommunications Commission and the Canadian content rules, we find a radio network that is being deregulated. I do not know who to believe here, but it is my understanding that stations that are profitable are concentrating more and more. Those that are in the red are being left out in the cold more and more and constitute a larger proportion. Therefore, they are now relaxing the rules.

What I am really tring to get at is the real debate. We talk about a lot of things we think we can control. However, the point is that the proliferation of the technology and of what Canadians want and whether they are led or not, and the costs, are conspiring to make it no different from the auto pact or textiles. We are going to have to face those situations.

In my estimation, we looked at a very difficult situation, which is that there is no quick regulatory fix. Taking policy decisions that limit your flexibility at this time and which will eventually be answered by the children who come along and try to find jobs is what is serious. When I look at magazines, we are between a rock and a hard place.

I find my own position terrifically amusing. If you should unilaterally remove Bill C-58, I believe my company would be gone within a year and a half. On the other hand, I am not sure you are aware that 30 per cent of all circulation is American-controlled now and I cannot get at it. It is my marketplace; it is in Canada but I cannot get at it. These are American magazines coming into Canada. This is like no other country. Of all subscriptions in Canada, 60 per cent are paid for by the 13 per cent of the population which reads Canadian magazines. This is a very small élite. The rest of the country does not belong. They are buying American magazines. Bill C-58 has brought the Canadian magazine industry into existence. Without the bill, it would not have happened. Make no mistake about jump-starting this engine. It is the same with the film industry and television industry. But we have gone now to a point where I cannot access my own marketplace.

The problem is that American circulation of paid magazines is increasing. With their newstand effectiveness we are becoming a newsstand culture. Why? It is because Cosmopolitan Magazine is an effective magazine and they have hundreds of millions to spend on making it a better magazine.

Having been down there, you would think that C-58 is working but it is not. Hearst can come in here tomorrow with Cosmopolitan, cut the rates in half like Time Magazine, and there is nothing you could do. The only other effective measure we have is postal rates. They are 98 per cent newsstand copies as are American magazines.

Why did they not do it in 1976? They did not have the circulation. They were below 100,000. They have now broken through the magic 150,000-200,000 level and there are 10 magazines in the US that could do this tomorrow. The only way you can stop them, after looking at it, is to start getting into limiting them at the border which is a freedom of speech issue and is not something I support. I do not think anybody supports that here.

What I am trying to say is that these are paradoxes. These are very difficult arguments. I do not know what I would do. I know, as I look forward, I had better figure out how to access the rest of my own market. I had better be able to come forward with ideas that I know will work and find a government and politicians who are responsive.

I would like to deal with how Comac Communications Ltd. can cope and prosper. First, as Canadians, we cannot be denied forever major portions of our marketplace. In Australia they allowed you to make deals with American publishers. They inserted and started a couple of things going. I do not know if that is particularly the answer here. I do not put it forward. I do know that as they creep more and more you are going to be faced with this problem later. This company is starting to be in trouble only because of this. Time and Newsweek could both be very successful up here. It would be another company if this company does not make it. It will be the rest of them trying to eke out advertising jobs.

Make no mistake that advertisers find a way. The advertisers know that the Fuji film ad is in National Geographic so Fuji film up here knows it is coming up here so it adjusts its budget accordingly. It has taken it 10 years to get on to this. There is nothing illegal about it. More and more people are buying National Geographic. Fuji film is Fuji film. The others also buy Time and the others offshore to get out of the tax implications. Where there is a will there is a way.

If I am to have access to these parts of my marketplace, if I made a reciprocal access in the US on a continued basis--we do our own magazine down there that is profitable--we will have to put culture on the table.

I have a problem with culture being on or off the table. I think it was Mr. Mackenzie who noted that it was impossible to separate this because they will just ask for something in another area and, therefore, it is implicitly on the table. They will open the negotiations by saying, "By the way, because culture is off the table I would like the auto pact readjusted." Then, hell, it is on the table.

If you look at the technology that is available for communications in just Canadian Satellite Communications Inc.'s own small communities, this is an impossible idea. What people might do is to politically adjust themselves but in the course of their conversations they would develop a language to talk about it anyway and in such a way that the name never comes up. Since we all know this I would like to get on with what we are going to negotiate. I do not care how many depositions you take.

I also do not care whether these "talks" happen. It has nothing to do

with this. You are going to be negotiating trade, I hope, for ad infinitum, and all of these questions will come up.

12 noon

So, in any process of dealing with the Americans on their growing influence on my industry, we have to proceed with an awful lot of vigilance but we have to be flexible. If we do, we will prosper and grow with new markets. However, we should limit any greater access to financing--it is too small as it is now--as will many other small or medium-sized publishing companies.

That is so because we are damned good at what we do. We make great magazines at Comac Communications Ltd. Given the chance to gear up, we will compete in magazines whether they are magazines for Canada or for the world. Our company commits to that. However, do not expect excellence if you limit my company's and my people's opportunities. Expect to inherit the just reward of being needlessly timid--mediocrity. If you give me that, with my people and my editors, that is what you will get and that is the company you will get. It is not about dollars and cents for them; it is about emotion and excellence.

My recommendations, to summarize, are as follows. They are to be taken within the context of my presentation to you.

1. It is important that we not consciously or unconsciously undermine any negotiations on any sort of trade.

2. Ontario must encourage opening additional trade negotiations while continuing to encourage the General Agreement on Tariffs and Trade.

3. Ontario must not accept formal veto power while maintaining informal veto power. On veto power, it is my position and my view that if you go after formal veto power, you will end up with the worst of all worlds. If the talks are a success, the federal government will take all the credit. If they are a failure, it will point to your veto power. Whether or not you actually used it, the federal government will imply use of it. The safety net is that there is no trade agreement without Ontario. Seriously. Premier Peterson stands up and says: "I know you have signed this. It is not on. Watch me. It is over." This province has informal veto power, as do most of the others.

4. Ontario should not formulate any policy that limits Ontario's flexibility now or in the future. This is too difficult to figure out. I do not know how to deal with this for my own company. I know I have to move on.

5. Ontario must be vigilant and, where appropriate, insist on experiments or trial tests that do not mousetrap or limit Ontario's options to withdraw while maximizing Ontario's chances to proceed.

6. I ask you to remember that our cultural and communications industry is a subtle one that does cut to the heart of the country. The Ontario government must proceed with consultation; increase our opportunity, please; challenge us; provide for conditions and timetables that are realistic; and not underestimate our creativity and our capabilities.

Mr. Chairman: Thank you very much for a very interesting presentation.

Mr. D. W. Smith: I, too, want to say that was a very frank, open and

interesting presentation. I have a few questions. I do not know whether I heard you correctly. Near the start of your presentation, did you say that Canadian wages would never change, regardless of what happened in the free trade discussions? Did I hear you make that statement?

Mr. Barrington: No. I was looking, specifically, at one of the ways the Third World is cutting itself in on the trade action; that is, through low wages. You have two choices. You either cut them out by trade barriers, whether right or wrong, or you try to make yourself competitive. It is not realistic. We are not going to lower our wages here so you are going to have to try to make up some protectionist laws that tie to their wage levels in the Third World. That is not on.

Mr. D. W. Smith: You have to be innovative in some other ways?

Mr. Barrington: Exactly. Some of this stuff is silly. I am finding in my own industry I have to be as productive. The revolutions that car manufacturers have gone through are now affecting me. I am dealing with all the stuff of people, automation, everything else. There are three people in Toronto who do separations who were not here before. I do not know whether you know what colour separations are for magazines. They are very expensive and a big part of the industry. These three people were not here three years ago. One is from Spain and will fly my pictures to Spain, do the colour separations and return them the next day.

One is from Japan and one is from Brazil, all having to do with separations. These are people who are cutting themselves in on the action. They do not have any better technology than we do; they have cheaper wages. It is a very difficult problem. If you do not make laws against it and if you let the marketplace provide the area, my competitor does it and therefore I am required to do it. If you do not do it at all, the problem is that people will just advertise in American magazines.

Mr. D. W. Smith: You said companies had to have 75 per cent Canadian ownership or more.

Mr. Barrington: That is correct.

Mr. D. W. Smith: How Canadian do they have to be in philosophy? Are you talking about people with Canadian citizenship who could have come from the United States and who think like Americans? They may want to get their foot in the door in that fashion. I want you to expand on that a little.

Mr. Barrington: I do not think there is any significant Canadian magazine publishing company that is not totally or reasonably Canadian-owned. I do not know what the share split is at companies such as Southam. I think it is very high. They are usually long-established. There is no quick way around this. I should add you cannot start a licensed operation. If you are an American with the rights to Computers Today and you decide to use its franchise to come to Canada, you cannot do that. You have to start an indigenous Canadian publication.

Mr. D. W. Smith: There is a question I wanted to ask the last group but we were a little short of time. Do you think that over the past number of years--I do not know how many years we could be referring to--we have been so overwhelmed in different ways by American media that we are slowly becoming Americanized without many Canadians even suspecting it? We could become the 51st state more quickly than we think. Do you see that as a possibility? It is

a pretty open question and you could say it is a little loaded. I wonder whether we are being programmed psychologically by the Americans without even suspecting it.

Mr. Barrington: There is no question that their influence has taken its toll. I have not heard of a great Canadian soft drink starting up such as Coca-Cola. Working people and business people, who are all supposed to be separate, are just people. They are not thinking about it a lot. The only time this comes up is in a national crisis when people feel threatened. I do see a lot of people doing a lot of talking about our national identity. I am going to answer on a personal note. I have no question about my national identity whatsoever. Whatever happens with regard to the politicians and freer trade with any country is not going to change the way I feel about this country. If I can use your question to go to another area, it is interesting that our own laws allow 30 per cent of our magazine circulation to be totally American-driven. I am barred from making a deal to get a piece of the action from them.

Mr. D. W. Smith: From the United States?

Mr. Barrington: That is right. I cannot have anything to do with Time or Newsweek. I cannot buy them out. If they wanted to sell their magazines to me, I would not be allowed to buy them. Even if I were going to put out a Canadian version of Newsweek, it would be impossible. They are going to hundreds of thousands of minds every month.

12:10 p.m.

The same is true of Cosmopolitan or Vogue. It may come as a shock, but Vogue is going to remain Vogue just because it has the sheer power to do it. It is an excellent magazine. It has 100,000 hard circulation in this country every month. It is the bible of fashion. As a Canadian, if I want to have participation in that magazine such as a Canadian insert, I am not allowed to. We will have to face that question. Vogue's circulation is growing, not decreasing. If the circulation were decreasing, I would be happy.

From a purely selfish point of view, I would also be happy to have a law that finishes this once and for all and bars all American publications. I would be in magazine heaven. My company would expand so fast you would not be able to spin your head. I would want them barred totally.

Mr. Chairman: Have you ever tried to go to the United States? Have you ever tried to market there?

Mr. Barrington: We own a magazine in the United States. It is making us a good dollar; absolutely no problems.

Mr. Cordiano: What would happen to that magazine if we barred all American magazines?

Mr. Barrington: I assume there would be a call. They would think of something.

Mr. McFadden: There are two or three matters I want to explore with you. You mentioned the whole area of competition. Carl Beigie was here last week and suggested that in any trade discussions with the United States it was important that we look at competition policy. In fact, altogether separately from the trade negotiations, he suggested in terms of the future of the

Canadian economy that competition policy should definitely be part of it. That is my view as well.

You have outlined the tremendous concentration of ownership in the magazine business. We are going to be hearing from one of those companies this afternoon. I gather you are suggesting that you have this giant, Maclean Hunter, at the top in the magazine business. Comac Communications is almost a pygmy in comparison to it. However, you are large in terms of the next order up. It just drops right away from you. Is that be an accurate view, a giant, then a pygmy and then almost insects below you, if you want to use that metaphor?

Mr. Barrington: That is right. There is Southam. There are two lineups in the country. One is Maclean Hunter, and the other is Torstar-Southam-Telemedia. That takes care of the other line of magazines in this country. That is that; then there is us. When you are talking about magazines in total, we are nowhere in the running. When you throw in the trade magazines, it is the Torstar-Southam-Telemedia lineup and Maclean Hunter, and that is it. It is a mind-boggling gap.

Mr. McFadden: How did we get ourselves into the position where the communications media is in the hands of such a small number of very powerful players?

Mr. Barrington: There is only one industry in which we have avoided doing this. We regulated the banks. This is not unusual. There are only a few steel companies and there are only a few railways. There are eventually going to be only a few development companies. There are 25 million people here. It is well known in the magazine business that the way you make money is to start a magazine, struggle along until you are starting to hurt Maclean Hunter, Southam or one of the big guys in some way and then you sell out. There is no access to capital.

Furthermore, what has happened is an increasing percentage of the readership, which is the people who want to read about this--it is not on. I have the only market where I am not allowed to get into that business. I make a deal. That is what happens. It gradually concentrates. We have no antitrust laws to speak of. We have no effective way to break up these family situations. If we do not have laws, these guys will do what any of us would do. They look for the next acquisition. They more powerful in the marketplace because of that and so on.

Mr. McFadden: With regard to this business about buying into an American company, I take it you were not suggesting you were going to buy a percentage of Time. What exactly were you going to propose in terms of Canada? You said you were being barred. Can you explain that a little?

Mr. Barrington: Newsweek magazine has the same deal as Time. If I wanted to approach Katherine Graham and say, "Listen, what you really need is a Canadian product and I would like to buy Newsweek in Canada," I would not be allowed to do it under the laws that exist today, despite the fact there is a precedent before the law of TV Guide being able to do it. I am not allowed to license; that is what I am trying to get across.

A magazine is an idea. If I change the name from Newsweek to Canadaweek, I have not bought anything. I may as well just start up a magazine. It is an intellectual property. That is what magazines are. That is what all communications media are. If I go in and buy the magazine and the circulation,

that would be considered licensing and that is not allowed.

Mr. McFadden: That is interesting. It is allowed in all other industries.

Mr. Barrington: The Coors people are doing it.

Mr. McFadden: To some extent, that is the way we have kept the Americans out--with licensing.

Mr. Barrington: It is the only way to proliferate product. The brewery industry is a good example. Make no mistake, it looks as if the big breweries get bigger as the market segments, but it is untrue. When you allow people to have more opportunity and they see more products being offered, with less uniformity, they are more willing to try things. Hence, the microbreweries start up. When there are only Labatt's Blue and Molson's Golden, some three products, and you come up with something new it looks really odd in society. However, when you have lots of products, somebody can come in as an entrepreneur and start out. It is good to have more variety.

Mr. McFadden: What is the current trend in sales and employment in the magazine industry? Do you have any overview? Has it been going up in recent years?

Mr. Barrington: Bill C-58 was one of the best pieces of legislation in terms of jump-starting this process. One of the straw men that has been thrown up many times is that anyone who suggests continuing change and flexibility with regard to our cultural laws and regulations is against protectionism and regulation. What you want to do is to look at this problem practically. Without Bill C-58, we could not have jump-started the engine.

Are we going to be the sole arbitrators of when we are healthy enough so we do not need to have quite so much protection? If we are, we are never going to find that day because of self-interest. When you finally have your magazines, you do not want anyone actually to go out trying to perpetuate competition, despite the fact it is vital to the country and yourself.

The industry grew enormously and it provided the basis for it. Now the industry has peaked. This year is not a great year for the magazine industry, but it has achieved enormous support. Let me put it this way: This law made no difference regarding Maclean's magazine and Time. Time just halved its rates. It is more competitive than it ever was. It turns out there was room for two in the marketplace; that is all that happened.

Mr. Chairman: Are there any other questions? Thank you very much. Your presentation was somewhat unique, because I think in essence you are saying that philosophically and emotionally you are for something even though, if it happened, it might well destroy your company.

Mr. Barrington: I do not think that is what I am saying, but it is close.

Mr. Barlow: Nice try, Mr. Chairman.

Mr. Barrington: I am saying that if I bar my company from competing, if I fall for that, I destroy my own company; I destroy its excellence. I recognize the dangers that are inherent in proceeding, but I see no other way. I want access to those greater markets myself because my people expect it of

me. They expect the company to grow and prosper. They are good people.

All I am doing is trying to get rid of the two red herrings I see. One is that we should just open everything up and everything would be wonderful. That is complete nonsense. The other is that if we make one move we are all dead in the water. It is a very subtle area. It is a very difficult area of culture. Be flexible. Take it a step at a time. Let us experiment with some things and let us pull back if they start to rip at the fabric of the culture. That is what we are going to do anyway, despite you and despite me.

12:20 p.m.

Mr. McFadden: I have just one question that crossed my mind about export sales. Someone touched on that. I think my colleague raised it. Is there anything of a regulatory nature today that would bar, say, Homemaker's Magazine from becoming a magazine that would be available to American households? Is there anything to bar that today?

Mr. Barrington: Nothing at all. In fact, it was tried by Homemaker's early on. The problem was the company was too young. It developed controlled circulation. You will notice that Time Inc. now has launched two controlled circulation magazines, which has legitimized it in the United States. We are very interested in the American marketplace for our magazines.

Mr. McFadden: Potentially you can do that right now under existing arrangements with no problem.

Mr. Barrington: Absolutely no problem whatsoever. Your largest media companies are all investing in the United States. Large magazine companies are not investing in Canada; they are investing in the United States.

Mr. McFadden: In what?

Mr. Barrington: Printing plants, magazines and newspapers. When you have $800 million in sales, getting five per cent the next year is tough. The ground has all been ploughed in Canada. There are only 25 million people. Obviously they have a great incentive to look for larger markets. Through the Toronto Sun, Maclean Hunter owns the largest newspaper in Texas. Let us get on with it. It is not a case of where their heads are; it is a case of what the reality is with that amount of requirement every year.

The committee recessed at 12:21 p.m.

E-54

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, APRIL 14, 1986

Afternoon Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Hennessy, M. (Fort William PC)
Knight, D. S. (Halton-Burlington L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitution:
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Canadian Authors Association:
Kerner, F., Immediate Past President

From Maclean Hunter Ltd.:
Osborne, R. W., President
Botting, H., Assistant Vice-President

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, April 14, 1986

The committee resumed at 2:12 p.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: We have almost all our members here this afternoon. That is terrific in view of the opening of the baseball season.

Fred Kerner is the immediate past-president of the Canadian Authors Association. Welcome; have a seat. Perhaps you will go over your presentation with us and then be prepared for questions.

CANADIAN AUTHORS ASSOCIATION

Mr. Kerner: As you undoubtedly know, the Canadian Authors Association is this country's oldest writers' group. It was founded in 1921 by such fine people as Stephen Leacock, E. J. Pratt and Bliss Carman, and its membership continues to have such fine people. I feel very proud to be among them.

In those 65 years, we have tried very hard to bring the writer's views to the public in addition to trying to help the writer develop. The public does not understand the writer for a very logical reason. The writer goes off and sits by himself and works. His family does not understand him. My wife thinks I am crazy when I close the door and sit in there writing. "What are you doing?"

It is very difficult. It is a lonely business, and it is an essential part of the development of a Canadian culture. All culture comes from writers and all writers need exposure to their fellow writers. Where would William Shakespeare have been had there not been the Italian playwrights, had he not been able to read them and steal from them? One writer lives off the mental and emotional development of other writers.

Through the 65 years, we have been responsible for many parts of our country's development as it relates to culture. Canada's 1921 Copyright Act, which finally gave authors a bit of a break, was entirely our doing. If the CAA had not been founded for that purpose, who knows what kind of copyright law we may have got and whether it would have been anywhere near as protective as it should have been of the right of an author to allow his work to be copied. We are currently involved in developing a new copyright law. We hope it will improve the situation, especially since the electronic age has overtaken us so rapidly.

We have done many things. We have prevented sales taxes from being put on books. We are very upset about Mr. Nielsen's report right now. That the written word should be taxed is horrendous. It would be like taxing our thoughts next. That is enough of all that history. I am sure many, if not all of you, know it.

It is our understanding that following the committee hearings in late

1985, the members were aware that there are legitimate cultural concerns involved in any discussion of trade liberalization. Those concerns cover a wide range of facets, if for no other reason than that culture covers a broad range of components.

There is therefore no doubt that the committee will hear a variety of opinions that will range from black to white--concerns of the creators of cultural efforts, concerns of the producers of such efforts, concerns of the distributors, concerns of the users and more.

In weighing all these facts and opinions, you will in many instances undoubtedly be faced with confusion, but only if you deem that a Canadian cultural industry--if we may term it that for the sake of convenience--should be looked upon as a single entity.

We stress that it cannot be so approached. It is not like the automobile industry, the forestry industry or whatever. It is, as I stated a moment ago, the combined result of the efforts of many aspects of our society. The creators, producers and distributors all have the same end in view in terms of financial opportunity as a result of their efforts, but each has a different focus in that a personal bias must be considered in relation to the means by which each of the groups functions in a free enterprise system.

To be more specific, and using the written word as the natural resource in question, the printer of books is a manufacturer and must develop a business in which his prices for the manufactured product are competitive if he is to survive. The book publisher is not so bound by competitive pricing. His product stands on its own. It is rare that two books truly compete head to head in the marketplace, although this can happen.

My novel, on the one hand, stands by itself. The story I have told, in the way I have told it, is unique, or as I try to tell beginning writers, it is peculiar--recognizing that word from its Latin roots, meaning private property. My cookbook, on the other hand, may not be unique in its subject matter, although I hope it will be in my stylistic approach to cooking as well as to writing.

My publisher, therefore, in establishing a price at which to sell my two books--among all the criteria that go into determining the price of books at retail--has factors that differ in terms of potential competition for each of my books. My novel faces a plethora of other novels in the marketplace. If you wish to read Margaret Atwood or Robertson Davies rather than me, no amount of price manoeuvring is likely to get you to buy my book over the work of a writer of the calibre of an Atwood or a Davies.

My cookbook, on the other hand, faces competition from another book, or maybe two, in the same area of cooking in which I claim a level of expertise. My publisher looks at getting my book to the public in the same way that an automobile maker does. What are we offering, not only in content, but also in design, practicability, ease of use, etc.? What makes my book a better buy than that written by cooking expert X and published by competitive publisher Y?

The typesetter and printer who could work on my books set a price for their services. My publisher chooses the supplier of those services who fits within his pricing formula. For the novel, since my name is not a household word in the field of fiction, I can see my publisher looking to produce a book that will sell at the least expensive price he can work out, within the

parameters of getting into the bookstores a book that will probably look passably good on your bookshelf at home.

For the cookbook, however, he will study the competitive volumes and decide whether to enhance my book with many coloured photographs of mouth-watering dishes to add to the perceived value of the book and enable him to get a price equal to or higher than books by the other cooks, or he will decide to trim away all the fat--no pun intended--and compete by underpricing my fellow kitchen artists.

I need not have explained all that to you. It is basic marketing economics. The effect of free trade in the publishing, book manufacturing and bookselling businesses is something of which you are well aware. You have sought the good advice from my colleagues in those industries.

2:20 p.m.

You know that if booksellers, libraries and government bodies can buy British-produced or American-produced books directly from the countries of their origin, what is called buying around, the publishing industry in Canada can be seriously affected. Statistics Canada has shown, at least for 1983, the last year for which figures are available, that 55.5 per cent of book purchases by Canadians were imported directly into the country without going through the hands of Canadian publishers or distributors. A great portion of that $690 million worth of books, which included service manuals and other publications that could be considered legitimate imports in that fashion, would serve the Canadian publishing industry well if they were bought from Canadian sources.

Let me interject that we do not disagree with Canada's having become a signatory to the Florence agreement. We were the last civilized nation to do so, thus lifting the restrictions on the importation of ideas in the form of the printed word. The delay in our having implemented this free flow of information across our borders was an embarrassment.

However, what would free trade do to cultural creators? The cultural riches of a country lie in the creative genius of its people. That means Canada's authors are a national resource, and that resource has been a part of trading between nations since the European settlers on this continent first put quill pens to paper.

At best, even with this free trade in ideas, few authors in this country earn a living wage from their writings, so to consider any restriction in the flow of ideas in either direction might have devastating consequences. Yet in public discussions regarding the possibility of free trade with the United States, a number of concerns have emerged as paramount. Among these are the protection of Canadian jobs and the maintenance of our culture and separate identity.

In free trade discussions, if and when they ever come about, the position of the cultural industires is unique. Any restrictions imposed on the free flow of ideas, in or out of our country, would serve only to diminish the vistas of cultural development.

There was a time, and some cultural nationalists still seem to sing the same song, when we were warned that our borders needed to be closed to the so-called incursion of cultural expressions from the outside world. We were going to grow our own culture, whether in the fields of books, motion

pictures, music or whatever, in our own hothouse. It could be likened to eating hothouse tomatoes all year round, and you know what they taste like, especially in comparison to field tomatoes, fruit grown in the free air of nature, even with a little acid rain thrown in.

As a group of writers, currently with a national and regional membership numbering some 1,500 that has looked after the needs of the writing community since 1921, the Canadian Authors Association brings its voice to you today to tell you that in the fine print of any agreement that would open or close our borders in these discussions, the needs of the creator of the written word focus on one point: A writer without the freedom to express himself outside the borders of his own land is no less restricted than a writer with that freedom taken away from him within those same borders.

The freedom of expression is also, we remind you, a two-way street. Just as we must be free to broadcast to others, so we must be free to receive from others. The free trade that the writing community currently enjoys, one that enables us to sell our works anywhere in the world where people wish to buy them and have access to the works of every writer who interests us, is a freedom we must not give up. Any move in any direction that would restrict that freedom must be looked at with a very jaundiced eye.

Concomitantly, we look to the book industry in this province as a major industry and we recognize that the extent and impact of the cultural aspects are in direct proportion to the success of the industry in supplying materials, regardless of authorship, origin or literary value, that consumers wish to buy. The continued problem of buying around is a dilemma in the light of our recognition of the Florence agreement and the implications such an international accord has on the ability of Canadian book suppliers, be they publishers or distributors, to continue to encourage a Canadian cultural growth through indigenous products.

Government policy regarding free trade in respect to its impact upon the publishing industry, of which writers are the seminal part, must be directed at enhancing the opportunities for authors in all areas of publishing, through all channels. Canadian authorship is an important issue. No measures should be implemented that might jeopardize the means by which Canadian authors reach their markets and pursue their livelihoods.

Free trade? Free means without payment. That is a thought we hope will remain firmly ensconced in the backs of your minds. Freedom often exacts a cost. It remains to you to see that the short-term cost does not become a long-term legacy of burden that will encumber the natural development of our culture, whatever it may yet turn out to be.

Thank you for the opportunity to be here today. We hope that if the need occurs, will can call on us again with regard to the situation in the future.

Mr. Chairman: Thank you very much for a very thoughtful presentation. Are there any questions?

Mr. McFadden: I thought that was a very literate presentation. One of the things you brought forward, as we work through today and during this week, is the whole problem of ideas and the flow of ideas across borders. Since Confederation--it probably went back to earlier times in Europe where various political entities tried to control the flow of ideas. Usually, that led to controls of authors and imprisonment and persecution of people with

ideas who put them to paper, who today would put them on the air or wherever they would happen to go.

What we are wrestling with on this committee is the whole question of the effect of trade rules--I guess you are really talking about commercial rules--on the flow of ideas and the future of the country. There has been a lot of hyperbole on all sides in terms of what might happen.

What I am trying to get from your brief is your concerns about who you are writing for, in the sense of your publisher. You are writing for the broadest possible audience and you hope that people will buy your books in Canada and around the world. I assume you are interested in getting as many readers as you can. How vital do you feel the ownership of the publisher is in terms of whether it is a Canadian, American, British publisher, or wherever the ownership of the publishing company actually comes from? What is your view of that discussion?

Mr. Kerner: As I said in my formal presentation, our culture--our resource--is writers, not publishers. It makes absolutely no difference what publisher publishes me. I do not care whether that publisher is a totally Canadian-owned publisher, partially American-owned, British-owned or French-owned, as long as I get published. I have views that I wish to have broadcast and I wish to earn money from having done my writing. That is my profession; I write.

There is an anomaly in that there are publishers in this country who, because of the unique position that we hold in the English-language world, are not truly publishers in the sense that they do original work; they are publishers in the sense that they make available for distribution--to publish, to broadcast, to make available.

If such a publisher, and we will not name names, owned in a country--we may as well say the United States; it is the closest at hand--did nothing but import its product from that country, did nothing to help Canadian writers other than to supply books to the marketplace, and then found himself in the situation that a publisher owned by Gulf and Western Industries Inc. currently finds himself in, I would have no qualms about saying: "There is no reason for that company to be transferred over in the overall picture. It has done nothing for the country."

There is the decision that Mr. Masse brought down in the case of Gulf and Western where one publisher, Prentice-Hall Canada Inc., having been a very good corporate citizen for many years and a fine publisher of fine Canadian materials was allowed to remain. General Learning Corp., GLC, which has done nothing but import product from its American base just cannot be transferred and we do not know what will happen to it.

2:30 p.m.

The compromise was with Ginn and Co., which has been a very fine Canadian publisher. Through previous machinations it happens to be owned by Gulf and Western. It is going to try to divest itself of 51 per cent. The problem exists in that if this divesiture lessens the opportunity for Canadian writers, it will be deleterious to what we are trying to achieve.

If, for example, a large Canadian publisher of textbooks acquires either 51 per cent or more of Ginn and Co., the first thing it will do is merge the two lists and merge the two companies. If I owned it, I would do the same

thing. One sales staff would be gone; a number of editors would immediately be redundant; and a good number of authors would no longer have a publisher to write for because a number of lists will be merged. There is no use having two elementary language series put out by the same publisher. There is no use having two elementary or secondary school math series brought out by the same publisher. You are competing with yourself. You will take the one you feel is better or the one that sells better, and the other one will go.

This type of thing can be a problem. We must, in every instance, think that our national resource is the creative person, the writer, and try to effect a balance from that. Frankly, I am glad I am on this side of the table and not wrestling with the problem on your side of the table, especially in the broader picture of trade across the board.

Mr. McFadden: I understand you are saying that the publishing companies are deliverers of the culture, not creators of the culture.

Mr. Kerner: In a great sense, they are.

Mr. McFadden: In the sense that the writer creates the material that the publisher delivers.

Mr. Kerner: However, we should not overlook the fact that the publisher's editor, very often, is creative in that he devises an idea and finds the right author for it. There is a level of creativity there, and there is a level of creativity in marketing too. I dislike marketing people, but without them my books would not sell. It is not that black and white. It is true that it is the author, the writer, from which all these things start anyway.

Mr. McFadden: Unless you take McLuhan, where the medium is the message.

Mr. Kerner: It is more of a massage.

Mr. McFadden: As far as the Canadian culture is concerned, we have had some views expressed--and over the years a lot of views have been expressed--about the strength of the Canadian culture and its uniqueness in the world. Concern has been raised that if we were to have freer trade arrangements with the United States, Canadian culture would be imperilled, if not completely eliminated in some way, shape or form. We would become homogeneous. As a writer and as a person active in the culture industry, do you have any comments about the strength of the Canadian culture and its viability in the world, particularly in the North American continent?

Mr. Kerner: As I said a while back, we are in a unique position in that we have the same language as our next door neighbour, unlike the French with the Germans or the Italians with the Greeks. We have the same language, and therefore we are exposed to the same cultural impacts.

I have a hard time philosophically even understanding what an American culture is, because I do not think there is an American culture yet. There is a great deal of American entertainment, but in terms of American culture, were there American playwrights before Eugene O'Neill and Tennessee Williams? That is in our lifetime, our generation.

The American culture is just barely beginning to reach a level where it might be termed a culture. How long did it take for a British culture to

develop? Hundreds of years. We want to develop an instant culture because the world moves quickly and we have communication that travels right around and back to us in an instant. We feel that because we are a country of some substance--and we are--and because culture is necessary to underscore and to celebrate that substance, we should have one right away.

There was a time, I said in my former presentation, when people were looking to close the borders entirely to anything, especially from the United States. It was all right to bring it in from the mother country. We still think of the United Kingdom as the mother country. That annoys me. I was born here. We are Canadian. We would close these doors and, as I said, try to grow this culture in a hothouse atmosphere. It cannot be done. We must feel confident enough that those people in Canada, whether they are native Canadians, landed immigrants or naturalized Canadians, are here and are creative and will develop in their own way.

I was talking to a young man at the back of the room before you called me, and he said, "Is it not amazing how much poetry is written in Canada?" I venture to say that, no matter what happens in any free trade exchange, whether I like or dislike it, poetry will remain a very strong part of our cultural development in Canada. We seem to be a nation of poets. I think we have more poets to the square yard than any other country in the world, and many of them are quite good. Whether I like their poetry or not, they are really quite good.

I feel no amount of tampering by dictum, especially governmental dictum, is going to stop the development of a Canadian culture. In Russia, I am assured by my colleagues, writers who have things to say that the government does not like still say them. In fact, I was responsible for publishing one of the earliest. I published Solzhenitsyn's first book. There were four publishers who grabbed it out of copyright, because Russia was not a member of the copyright convention. We made our own translation. There was a voice, and there are others. I dare say there may be many voices we do not know about.

We who write, we who have creative ideas will not be drowned by any level of--we have not been drowned by British culture, which is truly a culture. We look at it; we take the good; we sometimes take the bad and laugh at it uproariously, not because it is funny but because it is horrendous. It has not affected us. It has just helped us to learn. We like to take things in translation. It helps us to learn.

The writer is a sponge. He is like a very young baby. He absorbs everything there, because that helps him to develop. I do not fear an American culture, whatever it really is, and I do not fear for the development of a Canadian culture, whatever it may turn out to be.

Mr. McFadden: Thank you very much.

Mr. Kerner: Should I get off my soap-box now?

Mr. McFadden: No, it is very good.

Mr. Chairman: Are there any other questions? If you were on this side of the table--

Mr. Kerner: I would have been defeated at the polls. My opponent would have been sitting on that side of the table. I am sorry, go ahead.

Mr. Chairman: Mr. Traficante, our researcher, and I have been having a little discussion about your real message for the final disposition of this issue.

Mr. Kerner: I knew you would ask that. I have polled our membership, our executive and writers of stature, people such as Robertson Davies, who is a member of the Toronto branch. We have 10 branches in Ontario, by the way. W. O. Mitchell is a member of our Calgary branch, though he is teaching in Ontario currently. I poll these people and I get a different point of view virtually from every one. It is such an intangible situation, in a way.

As I said, I am glad I am here. I am glad I can make what is more or less--my daughter said, "If you had written this for my economics class, you would get an A, because it says nothing." My wife said, "If I were marking, you would get an F, because it did not tell me anything." However, my daughter knows economics professors and my wife has been out of school for too many years.

Mr. D. W. Smith: You might have won the election.

Mr. Kerner: Maybe I would have won the election. I have worked on them before. Maybe I am free to help some of you.

Mr. Hennessy: Send your wife to the committee. Maybe she would have a different opinion.

Mr. Kerner: She may very well. I do not know how I could really pin it down to any one thing. We must at all times remember that it is too easy to step on a crocus. It comes up, it sits there tenderly for a few days, and a cold wind or some snow or a passing animal can destroy it. That is how culture starts. It is not a full-grown Douglas fir which you are going to have to come in with a massive bulldozer or chain-saw to get rid of.

2:40 p.m.

In all the balancing you are going to have to think about, always remember that, somewhere in there, there is going to be a cost. I know there is one, and we all agree that in the immediate future there is going to be a cost that may temporarily hurt. We want to make sure it is not a permanent cost. We do not want to close a door entirely so we are cut off; we do not want necessarily to open it entirely so we let anybody in. In your own home, you allow in those people you want to allow in and some people break in.

I am not afraid of anybody else's culture, because I learn from it. I am glad I am fluent in several other languages than English because I have the exposure of reading other works, be they novels, nonfiction, plays, poetry, that are developing from cultures entirely alien to mine. They help me think; they help me develop. That is what we must do. We must always consider that, if we are to develop a way in which a nation--we, the people, if I may quote from our southern neighbours--can grow as a thinking people, we must have that total exposure: Not always winter, not always summer. I did not answer your question directly, I am sorry.

Mr. Chairman: I should see you had a dilemma in trying to put together a consensus of writers.

Mr. McFadden: I was just going to say it is interesting you use, "We, the people," which goes into the American influence.

Mr. Kerner: It was the British influence really, do you not think? Those Americans who wrote that were British.

Mr. McFadden: Yes, they were more British than aboriginal.

Mr. Kerner: They were not Amerinds; hardly.

Mr. McFadden: If you take the Canadian example, does a culture develop well under peace, order and good government, which is our particular motto?

Mr. Kerner: I think culture develops under any situation. If I can go back, it is developing in Russia. There is a whole new culture developing there. We may not live long enough to see it; I hope we do. Some day we are going to see it because something is bubbling, boiling and growing. When the restrictions are taken off, it is going to blossom forth and we are going to see something. It may be terrible; it may be absolutely exciting.

Mr. McFadden: I take it you are suggesting that, while culture and writing take on a national character, in the sense you are born and raised here and look at the world through where you are from, effectively you are also pleading that intellectual properties and ideas are for all mankind. Those of us in politics should be aware of that. While we can foster the development of writers and performers, we should look on ideas and the transference of those basic things on the international scene, not as something we can keep in a hothouse and not let out or let other things in. I take it that is your plea.

Mr. Kerner: Do you want to write my next position paper for me?

Mr. McFadden: No.

Mr. Kerner: You have done very well. That truly is it. If we were not able to communicate in the spoken word, if we communicated purely by thought transference--now we are doing science fiction--then the cultural barriers would never exist, because I would look at you and know what you are thinking and close my eyes and know what somebody in Zimbabwe is thinking. I say, no matter what we do physically, that generation of thought will always go on and we must never stifle it. We have seen too many instances of the Big Brother stifling creativity. I would not want to live in a world in which everything was so ordered that I could read only the alphabet from A to E or whatever.

Mr. Cordiano: Do you think--

Mr. Chairman: Is this a supplementary? I have a list.

Mr. Cordiano: Oh, you do. I thought we were through with questioning. In any case, I thought you gave me the go-ahead for a supplementary.

Mr. Kerner: This is freedom of speech.

Mr. Cordiano: That is right.

Mr. Mackenzie: It is jumping the gun.

Mr. Cordiano: I thought I was on a supplementary. Since we are

dealing with something that is very difficult to define, which is culture, and I am sure we have all struggled through that process at one time or another.

Essentially, you are saying you do not wish to have a situation where you are trying to protect whatever culture is there, whatever we define it to be, and put up certain restrictions. By implication, that means there are certain constraints on the artists developing whatever creative materials they come up with because of the way that industry would then have to operate.

I can see a situation where we are going to try to protect that industry as we define it in terms of a certain product it is coming up with. Then we define that to be distinctly Canadian and put up certain barriers to protect that industry. By implication, it is going to have certain constraints on those others.

Mr. Kerner: If I had my druthers, any books that come in from an American or British source would be funnelled through the Canadian distribution system. The profit from the sale of those books would then revert to the Canadian publishing industry, although perhaps not in some instances. There are some people who are just distributors; they just take the profit and go, but not most.

This country has built up a whole agency system. It is incredible in a way and because we are in an anomalous situation with the English language, spoken by so many people around the world and certainly dominated by two great English-speaking countries.

To do that, we must perhaps negate what we have done with the Florence agreement. Do we close our borders to the importation of the printed word? It is the true horns of a dilemma, and yet I suspect there is a way; there must be a way through. Doors do open two ways; some doors only open so far. A door permits passage; it permits entrance and egress.

The challenge you people face, trained in areas related to the law and in other diplomatic ways or whatever, is going to be defined. We are only here--I am only here certainly representing my organization to say, "Here are the things we think and we understand the problem." I face a dilemma. I am a publisher as well as an author. I have been a publisher in the United Kingdom, the United States and in Canada. I am an author who has been translated into 11 languages. I sit on both horns and let me tell you, it hurts sometimes. There is no padding that prevents that. There is no perfect answer.

I go back: there will be a cost up front. Make sure that cost, whatever it is, is a temporary one because we are establishing something. Eventually that cost will go away. It will not become a national debt that will grow and grow, and we will never get out from under it. We will die as a nation of thinkers or we will leave and go to the United States.

Mr. Cordiano: It seems evident today that if you do not have--how should I say it--a positive economic impact or an economy of scale, if you will, or economies in that industry, then you cannot develop--I do not know where I am leading with this--the kind of product that would enable the industry to flourish over time, if I can bring it to those terms.

2:50 p.m.

Mr. Kerner: The industry in Canada can flourish when we, the creative people, the creators of cultural works, find audiences outside this

country, because we are a small country to support ourselves. We will only find those when we begin to create things that are of interest. When Robertson Davies and Margaret Atwood make the New York Times bestseller list, as they have in recent months--for many weeks Margaret's book was still on there--it means we have grown to the point where one writer or two writers or six now have an appeal beyond our own borders. We are not writing strictly regional material that has no outside appeal. We must write that too; there are those of us and all of us who do, but the growth must come to the outside world. American writers could probably be supported very well by the American buying audience, as could British writers, but Canadian writers probably could not.

Mr. Cordiano: One final point, if you will permit me. It is just a question of what is available that enables you to have success in that unique industry. As people become more familiar with what is being produced, then there is a certain theory that says if you taste it, you want to try some more. If it is not available, I see that as a fundamental problem in the industry in this country over the long term, for exports as well as internally.

Mr. Kerner: It is a problem for the industry anywhere. Unlike Campbell's tomato soup, which is always the same once you have tasted it and liked it, you may like my current book, but you may hate my next one. There is no way of saying: "We now are growing step by step. Every one of these is going to be better and better. I am going to find an audience that will keep on proliferating."

When I get into economic theory, I feel I should have become a meteorologist. The best training for economists is weather forecasting. It is as good as anything else.

Mr. Cordiano: Who defines what is better as far as cultural identity is concerned?

Mr. Kerner: Only the person who eventually lays out his dollar to buy the book. If a book sells, it has a market. The critics can define something as being good and no one will read it. One of the great arguments the Canadian Authors Association had with the Canada Council was that after 25 or more years of having created, funded and handled the Governor General's awards, the Canada Council asked us, when it came into being, whether it could take on the Governor General's awards. The committee was autonomous in those days, and the chairman was very ill; in fact, he died two months later. He was glad to get rid of it without asking anybody. I was going to make a point, but I think I lost it.

We said, "We do not like what is going on here," because the books selected by the committee that determined who would receive the Governor General's award were books that had no broad popular appeal. Internal personal politics were getting in. This is something that should be said, but the publisher sold 85 copies.

In 1975, we created a new awards program, the Canadian Authors Association literary awards. We compete head to head with the Governor General's awards and we still choose the kinds of books we used to in the days before the Canada Council took over the Governor General's awards. These are books that have popular appeal, that are the best written according to a panel of judges and critics. However, this is a very personal thing.

Mr. Cordiano: I was looking at it from the perspective of export possibilities and international recognition.

Mr. Kerner: It is the same thing though, is it not?

Mr. Cordiano: It is. That is what I am saying. If you do not have it available and you do not have enough authors or enough creative minds working at it, then it is not going to be available.

Mr. Kerner: That is right. It will become more and more available as we grow. Give us another 100, 200 or 300 years and the Canadian culture will have an impact on the world. I know it, because we are a unique nation with a unique group of people. We have developed side by side with the Americans but in two different ways. There will be a culture whether we squelch it or not.

Mr. Morin-Strom: This has been a very impressive presentation, but to this point we have had a little bit of difficulty getting anything very tangible from the discussion. Perhaps you could give us some background on more specific questions, such as how many members there are in the Canadian Authors Associatio.

Mr. Kerner: We have about 1,500 members in 18 branches across the country. We are a loosely knit group of autonomous branches. There are 10 branches in Ontario, with three in this area: Toronto, North York and Oakville. Through the years we have had more than 25,000 members. Most of the names you know today in the world of writing have belonged to the CAA somewhere along the way, either as members at large, because they were not close enough to a branch, or as members of a branch. Arthur Hailey, Pierre Berton and Farley Mowat all have been members. They have come to learn; some have stayed to teach. I stay simply because I enjoy working with neophyte writers, no matter what their age. I truly enjoy it.

I did a workshop on Saturday in St. Catharines, Ontario, where 140 people came out to learn how to write fiction. It was wonderful. They did not want to let us go. We were four people there. This is the ferment that is going on. This is the culture that will come.

Mr. Morin-Strom: Is that the number of authors there are in Canada today? What would be your estimate of the number of authors there are in Canada?

Mr. Kerner: Every second Canadian is writing poetry, so we have 12.5 million there.

Mr. Morin-Strom: More pointedly, how many are depending on writing as a major source of income?

Mr. Kerner: Leaving aside journalists who are working daily--I started as a journalist. You earn some sort of a living, not very good, but you earn a living--and people who work in the magazine industry as staff writers, I would say that if there are 400 to 500 people in this country today who earn enough to take them beyond the poverty level from their writing, we are doing very well.

Mr. Morin-Strom: How many do you think there are in the United States?

Mr. Kerner: I am a member of the American Guild of Authors and Composers and the Authors' League of America. I would say there are between 5,000 and 7,500 writers in the book field. We are not talking of people who write for television or movies or the stage.

Mr. Morin-Strom: We probably do not have our proportionate share then.

Mr. Kerner: Not yet. They have a jump of 100 years on us for one thing.

Mr. Morin-Strom: Among the 400 or 500 who are writing as their major field of endeavour, as their occupation, could you give us a rough idea of the split between those who are dependent primarily upon writing for Canadian audiences and those who would be writing for broader audiences and are dependent on sales to North America and the world English-speaking audiences?

Mr. Kerner: If any writer is dependent upon a Canadian audience alone, he or she is not earning enough to live on. It is the writer who has a reasonably good sale in Canada who also has a reasonably good sale outside Canada.

Pierre Berton does a book and even though it is highly Canadian, he has a reasonably good sale in the United States, in the United Kingdom and in Australia. His writing is somewhat regional, deliberately so, and he makes the bulk of his living from that here. Beyond that, you are writing for a world of people who want to know what you think and what you do.

Mr. Morin-Strom: I do not know if you want to take specific examples, but would these Canadian authors typically have the majority of their sales within Canada? Would you say, "Yes" to Pierre Berton? There are significant sales in either place, but is the majority of the sales in Canada?

Mr. Kerner: Yes, certainly. For one thing we are highly conscious of the fact that we are trying to develop a Canadian culture, or think we have one. We talk CanLit, which is a horrible abortion, but there it is. When Margaret Atwood or Bill Percy comes along with a new book we go out and buy it. This is one of our writers and we want to see what he or she has to say.

This happens in England. A new book by a British writer finds its first mark there. You publish in your own market first with some small exceptions. When a very well known Canadian publisher turned down Mordecai Richler's first book because he did not know what to do with it, he sent it to a British colleague who published it in England. Then we imported Mordecai Richler to Canada. Now he is published in Canada first. That was an era of 20 years ago when publishing did not even understand what culture was all about.

Mr. Morin-Strom: If a person did not know who had written a book, would he know from reading it that it was written by a Canadian author?

Mr. Kerner: I would not think so.

Mr. Morin-Strom: Are very many Canadian authors viewing North America as a composite market and aiming their writing to be more or less indistinguishable from an American standpoint?

Mr. Kerner: When an author is writing fiction, he or she does not create for a market. When I am writing a cookbook I am creating for a market. I know that currently a lot of fondue sets are being sold, so I create a fondue cookbook. That is a market. If the market is beyond Canada, great. If it is not, then it is good enough for Canada.

Mr. Morin-Strom: What if you are writing for Harlequin?

3 p.m.

Mr. Kerner: If I am writing for Harlequin, I am writing for the world. I happen to have been the vice-president of Harlequin for 10 years, and I write for the world. I could not write a Harlequin; I wish I could. I would make a lot more money writing for Harlequin than I would being its publisher.

Mr. Morin-Strom: Are there many Canadian authors who are writing for that type of thing?

Mr. Kerner: Harlequin?

Mr. Morin-Strom: That is what I view--

Mr. Kerner: Currently we have about 60 or 70 authors on the Harlequin list who live in Canada. When I joined the company 10 years ago we had two. We went out to look for them, but they were developing. They were reading romances and setting them aside and saying, "This is something I could write perhaps." Without the exposure to romance fiction, the Canadian writer would never have known that she could write romance fiction successfully too.

Among the writers that I said are earning their keep are mostly Harlequin authors. They earn $50,000, $60,000 or $70,000 a year.

Mr. Chairman: I would be interested in knowing what Farley Mowat's reply would be if you personally canvassed him on the issue of free trade.

Mr. Kerner: No, Farley is no longer a member of the association. He belongs to a trade union now. We are just the Red Cross. I am sure he has some very interesting points of view.

Mr. Chairman: I am sure he would have. Thank you very much, sir.

Mr. Kerner: Thank you for the opportunity, and good luck in your endeavours.

Mr. Chairman: Now we have Mr. Osborne and Mr. Botting from Maclean Hunter Ltd. Welcome, gentlemen. Have a seat and make yourselves comfortable. First, who is Mr. Osborne?

Mr. Osborne: I am.

Mr. Chairman: Will you be reading the brief, sir?

Mr. Osborne: I shall.

MACLEAN HUNTER LTD.

Mr. Osborne: Good afternoon, gentlemen. Thank you for inviting us, or at least allowing us to attend if we invited ourselves. I am not sure which way around it was.

I am the president of Maclean Hunter. Harvey Botting, to my left, is an assistant vice-president at Maclean Hunter. He deals particularly with our publishing operations and also with those aspects of our operations that have to do with government relations, free trade issues, etc. He, more than I,

likely has the specifics on some of the issues you undoubtedly are going to be raising.

With your permission, I would propose going through the sheets that you have. They are in large type so I do not think they will take as long as they would appear to from their weight. We shall then be pleased to answer any questions that anybody may have.

Over the past six months we have been asked to make presentations similar to this one in a variety of different environments and forums, so if we appear to take things for granted in answers to questions, please back us off. I recognize these issues are not as critical to most of you as they are to us on the other side.

As a company, Maclean Hunter is in the business of constantly monitoring the pulse of the nation. We are aware that Canada does not indigenously have a strong sense of unity. It is a fragile nation that must continue to struggle to maintain some form of common identity. Maybe it would be helpful in this context to review how we as Ontarians live within Canada in order to reinforce this aspect of inherent vulnerability that I refer to.

We are the second largest nation in the world. The distance between Victoria and St. John's is roughly the distance between New York and Madrid, yet the country has a population base that is only one tenth that of the United States.

We live within a thin demographic ribbon that parallels the United States-Canada border, 4,000 miles wide and, for the most part, only 200 miles deep. Geographically, it is often said that the country's natural connections are north-south rather than east-west. A sense of identity is further reduced by duality. We have two official languages,-English and French, and a multiplicity of unofficial languages. Only 16 million of 25 million Canadians claim English as their primary language.

From 1976 until as recently as a few months ago, Quebec was ruled by a government whose principal interest, initially at least, was to have Quebec secede from Canada.

We are a young country, merely 119 years old, and there are people still living in Canada today who were alive during the lifetime of our first Prime Minister. That is the background against which we talk about this thing called "cultural identity."

What is culture? What is the cultural identity? Because of our brittle sense of nationhood, culture and identity in Canada have become somewhat synonymous. We use the word "culture" in its broadest sense. It refers to those characteristics that give Canada a sense of identity, distinguishing it from other nationalities. The notion incorporates the Canadian viewpoint and the way Canadians look at themselves and, just as important, the world. Culture is reflected through periodical publishing, broadcasting, book publishing, the film industry and many other media forums. It is very much broader than the performing and visual arts--the ballet and the opera, etc.--that are so often misunderstood to mean culture in the most literal sense. By culture, we are referring to the broad spectrum of vehicles of interchange amongst Canadians.

Why has culture become so embroiled in this ongoing free trade debate? The term "cultural identity" has been bandied about very loosely in the

context of the free trade talks and has taken on a somewhat emotional ring, something akin to the concept of national security, which Americans quite appropriately hold so dear. Indeed, the two concepts are amazingly similar. They are the umbrellas under which all those attributes that protect the integrity of a nation--political sovereignty, freedom of expression, national defence, etc.--are sheltered.

These concepts are part of the free trade debate because, for the most part, the vehicles of cultural identity, be they magazines, broadcasting, films, books, etc., are founded and rise or fall against an economic or a business backdrop. With the key exception of the Canadian Broadcasting Corp., these vehicles are businesses in the real sense and have most of the attributes of any other business. For example, they need to avoid losses in order to survive; they need to show profits in order to grow and to attract investors for expansion. Much the same can be said about the vehicles of US national security, for example, the broadcasting business and the huge network of suppliers of defence equipment and arms. Often you will hear the National Aeronautics and Space Administration described in that same context.

Whether or not the so-called cultural industries are on the table for serious negotiation, it is thus inevitable that the present dialogue on free trade will reflect to some degree on the trading and business aspects of the vehicles of culture if not culture itself, loosely defined to be the arts, the news, entertainment and information, often referred to very generally as communications and media.

What is the role of the so-called US cultural industry currently in Canada? Today there are virtually no restrictions on US information and entertainment entering Canada. I have a few examples:

Of all news-stand periodicals sold in Canada, 77 per cent originate in foreign countries, primarily the United States. When you include post office-delivered subscriber copies of magazines, my recollection is that some 60 per cent of all periodicals read in Canada come from outside Canada. That means, obviously, that 40 per cent are indigenous.

Some 70 per cent of Canadian English-language television viewing is spent watching non-Canadian programs, essentially United States programs. Not quite the same is true in Quebec with the French programming, which is somewhat different.

Three of every four books sold in Canada were published outside Canada, most originating in the United States. Also, many are from Britain.

Foreign-controlled companies account for three quarters of the revenue earned by movie distribution companies in Canada. That statistic may be a little out of date, given what has happened recently with Cineplex and a number of other transactions, but that is the best I have at the present time.

The eight largest sound--that is, music--recording companies in Canada are foreign-owned.

3:10 p.m.

It is fair to say that on any balance in the trading issues relating to the cultural industries, clearly in the cultural business the United States

has a preponderance in the markets that far outweighs any preponderance that Canada might have, for example, in softwood lumber, wheat or whatever the contentious issues are on the other side of the border.

What are the contentious issues? There are so many that not even we at Maclean Hunter can stay on top of them, even though it is our business, but I will focus on two or three that attract a great deal of attention. I am not here today to advocate any attempt to reduce the access of Canadians to this free flow of the foreign viewpoint, largely the US viewpoint, through information and entertainment; quite the reverse. We are discussing the mechanisms by which Canadians may be assured of economically viable access to the Canadian viewpoint.

To digress for a minute, it is always possible to set up government-run, government-controlled structures to achieve the same end. The Canadian Broadcasting Corp. is a good case in point, but I doubt very much that the Canadian taxpayer, either federal or provincial, would be prepared to set up a Canadian magazine corporation, a Canadian newspaper corporation or what have you. What we are talking about here are those mechanisms that leave the bulk of the vehicles of the so-called cultural industries in private hands, open to the whims and the dangers of the free enterprise, private market system.

Canadian legislation, often referred to as Bill C-58 and related regulations, is designed to prevent foreign publishers and broadcasters from dumping at no cost into the Canadian marketplace the editorial and entertainment packages they have already sold to American advertisers. It is self-evident that if US publishers and broadcasters are allowed to recycle in the Canadian marketplace, by accepting advertising from Canadian advertisers, their investment in editorial and entertainment packages that has already been fully recouped in the US markets, then they have a tremendous competitive advantage.

For example, we estimate that for most magazines, editorial costs range anywhere from 25 per cent to 50 per cent of total revenues. That is true, for example, of Maclean's magazine at the 25 per cent level. With a very large circulation magazine, print cost becomes disproportionately high, which is why Maclean's is at the 25 per cent level. If you took a shorter-run publication, such as a trade or a specialty publication with a press run of 10,000 or 15,000, you would be closer to 50 per cent of revenues. It does not matter how efficient you are in other areas, such as your mechanical cost or distribution, your promotional activities, etc., or how good your product is, if you start this far behind, it is simply impossible to catch up.

Bill C-58 does not prevent Canadians from advertising in US magazines or on US television, but it does prohibit a tax deduction for the advertising cost. In spite of this, the Time subsidiary company in Canada, without incurring any additional editorial costs and using recycled US editorial material, does attract a lot of advertising revenue in Canada and billed more than $15 million in 1984, which is the last year for which we have reliable information.

Similarly, US border television stations still attract significant amounts of Canadian advertising, although that figure is extremely difficult to come by. You may recall a report by Professor Donner a few years ago that indicated that without Bill C-58, border stations would likely take about $30 million out of the Canadian marketplace. In today's terms that would likely be closer to $50 million, but we do not really know how much it has not succeeded in repatriating.

The US border stations are able to do this by discounting their advertising rate card to compensate for the nondeductibility for tax purposes. This still makes economic sense to them because they have limited, or certainly manageable, incremental costs attached to this Canadian business. For example, if a Buffalo television station has not been able to sell all its advertising air time to American advertisers, it might as well sell it at half rate to Canadian advertisers. It will, after all, incur minimal costs, and half a loaf is better than no bread at all. Time Canada has to sell only enough advertising to cover its mechanical costs of production and distribution without making a contribution towards editorial costs.

It is not accidental that since the broadening of the base of the Bill C-58 legislation in the mid-1970s, there has been substantial growth in the number of Canadian periodicals serving Canadian readers and a substantial broadening of the Canadian television industry. Witness the gradual expansion of private television stations across Canada that are not affiliated either with the CBC or the CTV networks.

There is additional government regulation--actually, it is a Canadian Radio-television and Telecommunications Commission regulation--that is designed to ensure that Canadian television broadcasters get a fair crack at recovering their investment in imported, largely Hollywood, programming.

Canadian private broadcasters only have one stream of revenue--advertising. With the exception of news and current affairs, most programming is purchased from independent producers, both Canadian and American. Access to the profits derived from running US programming is essential to the Canadian broadcaster. These profits pay for the 60 per cent of programming--actually 50 per cent in prime time--that is Canadian. The Canadian market by itself simply could not economically justify this level of Canadian programming.

I am sure you have all heard that one episode of Miami Vice costs roughly $1.3 million in US dollars to produce, and Dallas is rumoured to cost US$1 million per episode. When you consider that similar programming in Canada has a market value to advertisers of approximately $100,000 per episode, you can see why we have to have access to that US programming to generate profits in order to do the programming on the Canadian side of the house.

All the American programming is also run on US television stations, including those stations situated along the border. Geographic proximity has always made it very easy for US broadcasters to make inroads into the Canadian market, from both an audience and an advertising revenue standpoint. Indeed, there have been television stations set up along the border in the state of Washington and other border states whose sole purpose is to tap the Canadian market.

The classic example is Bellingham, which is just over the US border south of Vancouver, beaming directly into Vancouver and Victoria. Without Vancouver, there is no economic justification for a television station in Bellingham. Similar stations were set up in--my US geography is not very good; I guess it is North Dakota or maybe Minnesota, which is immediately south of Manitoba. There was a similar station set up on the US side.

Mr. Chairman: It is North Dakota.

Mr. Osborne: Thank you. Even today in Maine, one of the Bangor US affiliates has what is called a repeater on the Canadian border that it feeds a split feed to. One signal goes out to Bangor residents over the air and another feed with the same programming but different advertisements goes to the repeater beaming into Nova Scotia and New Brunswick, aimed specifically at a Canadian audience. There is absolutely no cost attached to that, and the objective is to take revenues out of the Canadian marketplace.

To give the Canadian broadcaster some measure of protection for the Canadian broadcast rights for which he has paid fair value to the Hollywood producer, the CRTC requires that cable companies substitute the Canadian broadcaster's signal for the US broadcaster's signal on the respective cable channels when both stations are broadcasting the same show. If at eight o'clock on a Sunday night CBC and NBC are running Dallas or whatever, then the cable company has to run the CBC signal on both channels. This is known as "simulcasting." If, however, Dallas is run at seven o'clock in the United States and eight o'clock in Canada, that is too bad.

Contrary to what you may have read in the less reliable press, this is not designed to allow Canadian cable companies somehow to cream off advertising revenues from US television stations. It is to ensure that the Canadian broadcaster can sell to Canadian advertisers the entire audience to that show. After all, he has acquired the Canadian rights to that show.

That is not to say that US broadcasters do not benefit in many other ways from their proximity to Canada. There is the additional phenomenon known as "spillover." In the United States, per capita advertising in general and per capita television advertising expenditures in particular are significantly higher than the respective per capita expenditures in Canada. It is a function of 60 cents on the dollar roughly, and I am treating a dollar as a dollar; I am not referring to exchange rates.

3:20 p.m.

There are a number of reasons for this, but one of the key reasons is that advertising in US magazines that are read in Canada and advertising on US border television stations that is viewed in Canada, in the minds of some advertisers, at least, reduce the requirement for a direct investment in Canadian media. In most marketplaces, only one hour per night of prime time viewing is simulcast, as I discussed earlier. This leaves plenty of time for spillover advertising on US television stations. Empirical evidence of the spillover phenomenon can be found in the launch in Canada of Budweiser beer, which started off with a seven per cent market share roughly, as I recall. That was not done without the spillover.

If you cannot measure spillover, how do you know how much money is not spent in Canada? If you talk to US advertisers they will be very cagey about discussing the issue, but we know from our salesmen on the street that when Chatelaine or Maclean's deals with some advertisers, they are told they are not needed because Ladies' Home Journal and Time come in and are asked, "Why do we need your magazine as well?"

Those are the two key issues you will often hear about. One is the Bill C-58 legislation and the other is the CRTC simulcast legislation. Let me close by making a few points that I think are important in these negotiations, but that are often overlooked.

1. Abandoning Bill C-58 and similar measures designed to ensure a reasonably level playing field for the Canadian cultural vehicles will not likely create any additional jobs in the United States and indeed could conceivably result in job losses in Canada.

Time magazine has the editorial staff it wants; the Buffalo stations have the programming and editorial content they want. They are not likely to beef up their editorial, programming, engineering, technical staff or what have you simply because they now have access to a greater pool of revenue from Canada. After all, we are a relatively small portion of their marketplace. On the other hand, to the extent that significant revenues are taken away from the Canadian cultural vehicles, there could undoubtedly be significant job losses, both within the context of the industries and overall.

By way of example, a television station in Canada will have anywhere from 200 to 300 employees, and in some markets more, and Maclean's magazine has an editorial staff of 85. That is not large relative to Time magazine in the United States, which has somewhere in the 200s or 300s. Relative to anything else that has ever been developed in magazine publishing in Canada, however, that is a very large pool. As recently as five years ago, it was in the 30 to 40 range.

Permitting the deductibility of Canadian advertising in recycled Canadian editions, a foreign magazine simply siphons off those dollars that otherwise would be available to the Canadian vehicle. All the actual costs of production, including printing costs, would likely be incurred in the United States. The only incremental costs to be incurred would be those relating to promotion and sales efforts in Canada.

I will digress for a moment if I may, because a thought occurs to me. When looking at the broadcasting situation, you have to remember that the so-called border broadcasting issues, simulcasting and Bill C-58, have a direct impact on 100 per cent of the Canadian broadcasting industry because we are all strung along that border. In the United States, three or four cities have television stations that would somehow be affected by the border broadcasting issues. All those cities in and of themselves can support their own television stations. It is not as if somehow Buffalo will go without television if Bill C-58 is not allowed to die. There is a disproportionate impact when you consider the national importance of radio and television broadcasting. This is essentially a television issue, not so much a radio issue.

2. It is important to Canadian manufacturers and distributors to have access to their marketplaces through Canadian media. This will ensure that their voices have an equal opportunity to be heard. That is not to say Canadian manufacturers and distributors cannot get to their Canadian and foreign marketplaces through foreign media. It is really in the interests of what I will call now "national security": we want to ensure Canadian manufacturers have indigenous vehicles for reaching at least their own marketplace and preferably foreign marketplaces as well.

3. Contrary to what you may have read in the press as recently as last week, if a write-up of one of Mr. Crispo's speeches is to be believed, Maclean Hunter does not believe that Maclean's or Chatelaine will become extinct in a free trade environment that sees the end of the kinds of measures I have discussed. Undoubtedly these magazines will change, and for the worse. There is a considerable risk that our ability to invest in top-quality editorial

will suffer. There are many magazines and some broadcast outlets whose viability would be threatened by a completely open environment that permits dumping.

4. Some people have difficulty identifying with the use of the term "dumping" in the context of intangibles, such as editorial and entertainment programming. However, it is really no different from the situation of a shoe polish manufacturer in Canada competing with foreign producers who might dump the contents of the can into the Canadian marketplace, providing only the can and the marketing effort within Canada.

5. Reference is often made to the fact that Canadian publishers have sizeable investments in the United States. One hears the argument, "Is that not somehow eating one's cake and having it?" Canadian investment in the US media field is trivial relative to the entire US media field. There is no Canadian ownership in the broadcasting field in the United States and for all practical purposes there is no Canadian ownership in the consumer magazine field.

Canadian investors own less than five per cent of the US cable television business. We estimate that all foreign publishers, including some large European publishers, have considerably less than 20 per cent of the US trade publications field in terms of number of titles. In dollar terms we think it is a very small percentage, although accurate statistics are simply not kept. In the context of any concerns about Canadian investors overwhelming the US media field, these investments are insignificant. This is simply a function of the relative sizes of our respective economies.

Where Maclean Hunter has investments in the United States in the publishing field, we insist that the publications be published, edited and printed by Americans for the American marketplace. This has been our modus operandi since the 1920s. We do not share editorial material and we certainly do not dump into that marketplace.

6. We do not begrudge the American suppliers of entertainment and news information packages into Canada an appropriate profit on their endeavours. Indeed, for most of them the Canadian marketplace is extremely lucrative. Information on all these activities is not available in the public domain, but during the five-year period from 1980 to 1984 inclusive, the Canadian edition of Time magazine made approximately $24 million before tax but after payments to its US parent that ranged from $2.7 million to $4.9 million a year. Over that same five-year period, Maclean's magazine made an aggregate of $6 million before tax. We may envy these figures but we do not begrudge them.

7. Maclean Hunter believes the debate surrounding free trade is an extremely healthy process for Canada and is hopeful that the Canadian government, in co-operation with the provinces, can negotiate a free trade arrangement that will be beneficial to both parties and will prevent the recurrence of the kind of protectionist incidents that occur with such alarming frequency these days. We are concerned, however, that in this process we not undermine those very components of our society that ensure a free and economically viable Canadian voice.

8. Based on recent discussions we have had with a number of US senior people, we believe there is a growing understanding of this issue. We believe it behooves the Americans to recognize the sensitivity of this issue because it will be every bit as important in the many ongoing free trade debates that

it is hoped will follow the debate between Canada and the United States. Ultimately, it will not serve the United States well to allow relatively insignificant economic matters to undermine the basis of mutual trust and respect between the two countries as it relates to what we refer to as the cultural identity of Canada and what they refer to as national security.

3:30 p.m.

9. At all costs we must avoid the temptation to bargain off one component of the so-called cultural industries for the sake of others. Each industry plays its own vital role. The University of Toronto professor who last week apparently claimed that newspapers and television stations were the main vehicles for national thought in Canada overlooked that, for example, Maclean's magazine has a weekly readership in the 2.5 million range, which is greater than the average number of viewers of the CBC national news and the CTV national news. Together they beat us, but separately they do not. Obviously, the readership of Maclean's is also greater than the readership of any one newspaper.

Maclean's is one of the relatively few vehicles that can truly be described as national in its scope, serving Canadians from coast to coast and giving a Canadian perspective on events within and outside Canada. I use this as an example of how dangerous it can be to attempt to compare the relative importance of one industry component with that of another.

In conclusion, Maclean Hunter wants to preserve the best of both worlds: complete and free access by Canadians to the American viewpoint, plus an environment that allows the Canadian viewpoint to thrive. It is in the best interests of Canada to have a separate and distinct cultural identity. Ontario has a major stake in working to ensure this.

Thank you for attention.

Mr. Chairman: Thank you very much. This is very helpful. You are the first witness to equate culture with national security, although I have had that bee in my bonnet for a while.

By way of a supplementary to what you have said, ACTRA feels that 97 per cent of the profits from film distribution leave the country.

Mr. Osborne: Is that profit or revenue?

Mr. Chairman: Profit. Oh, and you were talking about revenue.

Mr. Osborne: To be honest with you, I am not sure. We talked about three quarters of the revenue.

Mr. Chairman: Yes. We had a figure.

Mr. McFadden: I was curious about that figure.

Mr. Chairman: That is on page 3 of the ACTRA brief.

Yesterday, Global Communications talked to us about spillover of American advertising. According to Mr. Cordiano's recollection, $780 million is lost per year. Frankly, I am not sure how Global calculates that.

Mr. Osborne: I cannot substantiate that, but it is a very big number. As a yardstick, in the United States we know that roughly 2.2 per cent of gross national product goes back into advertising or media. A little more than 2.2 per cent of the gross national product is used to advertise and promote gross national product, if you want to put it that way. My recollection is that the Canadian figure is of the order of 1.6 per cent to 1.7 per cent. Those figures were actually quoted in the Financial Post about three weeks ago, and I cannot recall them now. The figures were in a special supplement it did on the issue. Again, if my memory serves me, per capita advertising in Canada is roughly two thirds of the US figure. I think the number is about $400 to something like $600.

Mr. Botting: It is something like that.

Mr. Osborne: Those are the kinds of figures we are talking about.

Mr. Chairman: Is that in Canadian dollars?

Mr. Osborne: No. One American dollar equals one Canadian dollar. The exchange rate can give you a real problem historically in looking at those kinds of trends. We tend to eliminate the exchange fluctuation. If you turn those figures into hard dollars, you will certainly get up into the range that the people from Global quoted to you.

Harvey, do you recall from the Maclean Hunter research bureau what the total advertising revenues in Canada were last year?

Mr. Botting: We say the communications industry is about a $6-billion business.

Mr. Osborne: In the Maclean Hunter research bureau report last year, I think we said advertising was worth roughly $4 billion.

Mr. Mackenzie: In item 9 on page 12 of your brief, you make the point that "we must avoid the temptation to bargain off one component of the so-called cultural industries for the sake of others. Each industry plays its own vital role." Probably the first thing that is raised by most Canadians, certainly any with a nationalist bent at all, is the protection of our culture and making sure it is not on the table.

I wonder whether you accept the same argument with other components that are not cultural. I am talking about economics now. If the preservation of some of the gains we have made or hope to make in the cultural field mean that by taking that off the table or protecting it we are going to have to talk a little more seriously, for example, about revisions to the auto pact, another major economic factor, would that also concern you?

Mr. Osborne: Undoubtedly it would. I suppose it would be the easiest thing in the world for a callous bargaining team to say: "We will give you Bill C-58. We will take away simulcasting if you get off our backs on softwood lumber stumpage rates." That is a very easy way to negotiate. We are assured by the people we talk to that each industry will be negotiated on its own merits. At the end of the day, what happens in any negotiating roundtable? I do enough negotiating on behalf of Maclean Hunter that I know any negotiation is ultimately a matter of compromise on both sides of the table. If you cannot get to a compromise, you do not have a deal.

I do not want to talk on behalf of other industries because I am really not qualified, but I sincerely believe it would be a horrendous mistake for Canada to attempt to use the so-called cultural industries as any kind of bargaining chip to fend off attacks on the fishing or lumber industries. At the end of the day, Canada is the sum total of what the cultural industries in the broadest sense reflect. Without that, it is fair to say there will not be a Canada that is totally independent in the fullest sense of the word down the road.

I suppose that is going to sound like a scaremongering statement if picked up by the press. I do not mean it that way. I do not think the Canadian or the United States governments has any intention of attempting somehow to downplay the importance of what we might call political sovereignty. Cultural identity and national security are other ways to express it. However, it is a fact of life that the fewer mechanisms there are for Canadians to have dialogue among themselves, about themselves and about others, the greater the risk that, following economic integration through free trade, there ultimately will be other forms of integration whether we like it or not.

The other side of the coin, and I hear this argument often and I confess it has a lot of validity, is that without a strong economic base in Canada--in the shoe industry, in the textile industry, in the agricultural industry, in the lumber industry; it does not matter what the issue is--if we do not have the wherewithal to ensure that Canadians perceive themselves to have an adequate, appropriate standard of living within the North American context, we will not have much of the makings for an independent Canada 50 or 100 years down the road anyway. There is going to be a terrific balance here.

Mr. Mackenzie: In the same vein, but finally from your own negotiating experience, you do not accept that it is easy to enter into a set of negotiations wherein you can carve out certain interest groups. If the argument is made that everything has to be on the table, as it certainly has been made by the American government, you are dealing with all the components.

Mr. Osborne: Absolutely. It would be very naïve for us to think one can parcel out certain industries and start by saying these, these and these are not negotiable and these, these and these are. Realistically speaking, while we might prefer that there be a gentlemen's agreement in advance that certain things will not be negotiated, I do not think there is any chance that can possibly happen.

Interestingly enough, I attended a lunch at the C. D. Howe Institute last week, which a number of other business people attended, including one of the US negotiating team members. He was explaining how, in the last two or three weeks but only in the last two or three weeks, he has been bombarded by huge briefs that make our briefs look rather sick from various sectors of the American economy, saying: "You cannot allow agriculture to go on the table. "You cannot allow this. You cannot allow that."

The pressures are building from their side as well to have things off the table. We were silent, for example, on the question of the defence industries. We were silent on those things which are relatively sensitive in their terms because of national security issues. They undoubtedly have their list of things they would rather not have on the table as well. We will have to accept that everything is on for discussion. Let us hope both parties are reasonable at the end of the day.

3:40 p.m.

Mr. Lane: We have had groups before us which have indicated that if there were talks about freer trade with the US and Canadian culture was on the table and there was some kind of long-term agreement worked out, Canadian culture as we know it now would be lost. You are suggesting that would be the case. On page 4, you give five examples and record percentages. I know this is a very difficult question, it is a guesstimate, but assuming that Bill C-58 is retained, do you see any great change in those five examples as a result of a free trade agreement?

Mr. Osborne: Perhaps I can start by correcting an impression I have given you which is incorrect. If the cultural industries are on the table--and let us assume for the minute that everything is on the table--and if there is some bargaining away of certain aspects of the measures designed to ensure the integrity of Canadian cultural industries, there will be serious impacts. I cannot sit here and tell you that Maclean's will die or that Chatelaine will die. They will be hurt very badly. However, you can rest assured that we will continue to publish Maclean's. We did it for I do not how many years without making any money and we will undoubtedly continue to do so if we have to without making any money.

The difficulty that will undoubtedly occur lies in the television industries and in the myriad of magazines launched since 1976. Statistics show that about 400 successful consumer magazines--special interest, regional, some national--have been launched in the past decade. It is not difficult to imagine that one or two large Canadian magazines will always be on the buy list of a national advertiser, a Kraft or a Kellogg or what have you, but how deep is that list going to be?

When that advertiser can look at a list of five or six US magazines and see that with those five or six he can get far greater circulation coverage in Canada than he can in the second-largest, third-largest, fourth-largest and fifth-largest Canadian books, what is the likelihood that that advertiser will advertise in those Canadian books? What we will see happening in the magazine industry is that the larger books will become, if you like, even more dominant within their Canadian marketplace, albeit weaker because the pie will be smaller. Nevertheless, those magazines will have a larger share of a diminished pie.

You asked me specifically about these examples. I doubt the news-stand percentage would change dramatically if it went from 77 per cent to 85 per cent. I do not know that it would make an enormous amount of difference because the vast majority of Canadian magazines are home-delivered. With the sheer geography of Canada, the most efficient means of distributing magazines in Canada--and this will sound rather humorous perhaps--is the post office. It may not be terribly efficient in absolute terms; nevertheless, it gets the job done. While we find fault with the post office on many occasions, both publicly and in private, it does a sterling job of getting magazines off to those nether reaches that are not around Bloor and Yonge. An awful lot of Canada does not have access to Bloor and Yonge magazine stores.

Mr. Mackenzie: It is important that we chalk up one for the post office.

Mr. Barlow: We can put that on the table.

Mr. Osborne: In an environment in which Canadian magazine publishing became less economically viable, publishers will have to take steps to cut back on their circulation lists. For example--let me use Maclean's since I have used it previously--we mail roughly 630,000 copies a week. We sell on news-stands only--I say "only," but it is still a large number--roughly 20,000 copies a week. That is the relative scale of the postal-delivered versus the news-stand-delivered.

Of that 630,000, a very large percentage goes to the non-core markets. The national advertisers identify 13 major markets. They are self-evident: Toronto, Montreal, Vancouver, Kitchener, etc. However, an awful lot of that subscriber base goes beyond those 13 core markets. The cost to the advertiser to pay for the printing of Maclean's, Chatelaine and Canadian Living, and Coup de Pouce and L'actualité in Quebec, etc., to go beyond what they refer to as their desirable market is pretty startling. I have real concerns that in an environment that impinges upon the economic viability of Canadian publishing, you will find publishers very tempted to cut back on their circulation outside major markets.

I think that would be a terrible thing for Canada because, as I say, we believe Chatelaine is a national women's magazine. It is one of those few things that bind Canadian women together. It is the same with Maclean's in a different area of endeavour. My suspicion is that the magazine industry would be affected more in the post office subscriber editions than the news-stand copies.

As for television viewing, if Bill C-58 or simulcasting regulations were to be abolished, undoubtedly the Canadian Radio-television and Telecommunications Commission would need to change the regulations on Canadian content. The present regulation is that, overall, broadcasters have to be at 60 per cent Canadian content. That includes news, sports and current affairs, as well as drama and art forms, etc. During prime time it must be 50 per cent.

Without the profits that are generated on American products by the CTVs, the Globals and so on, we could not produce the same amount of Canadian content. There is no question about that. Undoubtedly, the CRTC would need to change the on-air percentages of Canadian versus imported programming, which would have to increase that 70 per cent. I hate to guess what it would increase by, but there undoubtedly would be some change.

That is not to say all Canadians are always going to watch only American programming. It is inconceivable that Canadians would not watch our local newscasts or a national newscast, but you are getting into a relatively small percentage of total air time when you are down to that level.

Mr. Mackenzie: There is no doubt in your mind there would have to be that increase for revenue purposes.

Mr. Osborne: Yes, and also for cost-control purposes. One of the real problems with Canadian content--I hate to call it a problem because it is also a challenge, I suppose--is that we are amortizing the cost of production over a marketplace of somewhere between $15 million and $25 million, depending on how you define it. It gives us a pretty severe competitive disadvantage relative to amortizing that cost over a market of $250 million.

Mr. McFadden: I am one of your subscribers to Maclean's magazine from the nether reaches of north Toronto. I am at Avenue Road and Eglinton, north of the Bloor and Yonge intersection. I would like to ask questions in two or three areas.

This morning we heard from Mr. Barrington of COMAC Communications Ltd. You may know of the firm. It is interesting how relatively similar your two briefs are when you are a giant compared to his operation, although he is fairly big in the consumer magazine area. In terms of your approach, both of you have said there are legislative and regulatory provisions that are important to the industry which you want to see protected. At the same time, you are not saying, "Build a drawbridge and do not let anything in." What you are saying is: "Give us a fair chance. Be careful what the level playing field is interpreted to be, but let us get on with it and see. Some people could benefit, but do not trade us off to the advantage of others."

In spite of the relative size of your companies, I find the similarity quite interesting in that regard.

There is one point I would make, since I know you are in the radio business as well. One of the things about which the Alliance of Canadian Cinema, Television and Radio Artists and other artists are very complimentary, and that I personally endorse, has been the Canadian content provisions in radio. I know a lot of radio operators were very upset when that came in; they felt nobody would want to listen to the wasteland that could develop. As it has turned out, it has gone well.

It has been my observation, and I am curious about yours, that the main beneficiary has been the artists. On page 4, point 5, you note that the eight largest sound recording studios are foreign-owned. They are state of the art, but they are foreign-owned. Every major record company today is foreign-owned. There are a few small Canadian ones, but the majors are all foreign-owned.

3:50 p.m.

The artists like it, of course, because they have had themselves presented on the radio. It is selling and it enhances their ability eventually for recording contracts that will give them access to the United States and elsewhere. As a radio station operator, how do you feel about the 30 per cent content requirement? Do you feel it is a desirable thing to leave in place? Should it be expanded or left the same? What effect do you think it has had on the radio business, which of course is Canadian owned?

Mr. Osborne: Some of the people who run our radio stations would shoot me if they heard me say this. I should not put words into their mouths. It is one thing to be a little theoretical about it; it is another thing to run a radio station day in and day out. My personal view is that the 30 per cent Canadian content regulation, which refers to AM radio only--there is a slightly different regulation on FM--has been beneficial, and it is the least the radio industry can do to try to foster the Canadian music industry.

In fact, most of us do more than that through things such as the Foundation to Assist Canadian Talent on Records and other industry associations, where we put money in to foster the development of records by Canadian artists. We do pay--I may not have the exact percentage--about 2.3 or 2.5 per cent of our revenues. In fact, it may combine 3.2 per cent, now that I think about it. In any event, somewhere in the two to three per cent range of our revenue in radio goes to pay for copyrights that ultimately end up being redistributed back not so much to the performers as to the writers, the creators of the songs we play.

The radio industry is involved in Canadian content at three levels. We have the content regulation on air, FACTOR and other associations that we support and the writers' copyrights for which we pay. I personally believe the Canadian Radio-television and Telecommunications Commission should not change that 30 per cent regulation on AM. I also happen to believe--and my confrères in the industry will shoot me if I say this--that AM and FM should have the same regulation.

I understand why, historically, the percentages have been different. However, today, with FM having roughly 50 per cent of the listenership of all radio in Canada--and it is still growing; it is up to about 70 per cent in the United States, as you are probably aware--I do not see any reason that FM should have different regulations from AM. If, indeed, over the next little while the Canadian government, through the CRTC, is going to relax on various other areas of FM regulation, then why not bring it up to the same level?

The percentages on FM vary from 30 per cent down to about 10 per cent, depending upon music format. The argument is that in some formats there is not enough Canadian content. Without the Canadian content quota I doubt there will ever be enough music. In a sense, it is a bit of a chicken and egg thing.

One of the problems with the Canadian content quota is that it tends to lead to a very high repeat factor of a few well-known Canadian artists. The three or four you can name would be the same three or four I can name: Ann Murray, Gordon Lightfoot, Murray McLaughlin, etc. They are a handful who are very well known. When you get beyond that list, a lot are not so well known.

It is easy for me to sit here and say that our station should be playing a lot of unknowns, but it would never do that with American music, and program directors rise and fall on audience surveys. We are caught between a rock and a hard place in the proverbial sense. I would not change that regulation; in fact, I would enforce it.

Mr. McFadden: One of the things I think is interesting is how radio station CKEY can maintain its 30 per cent requirement by playing golden hits. It indicates that there are a fair number of golden hits by Canadians; otherwise, it would not be maintaining that.

Mr. Osborne: Yes, that is correct.

Mr. McFadden: It probably could not have maintained it 10 years ago.

Mr. Osborne: Ten years ago it would have been impossible.

Mr. McFadden: That is interesting.

Mr. Osborne: There was an emergence of a fair number of Canadian recording artists, particularly in the 1970s. There is Paul Anka from the 1960s, but there was a very limited selection from the 60s at that level with that type of music. You are quite correct.

Mr. McFadden: The question of exports has been raised. I know you have investments in the United States. First, what is your current level of exports, if there are any? Second, what future do you see for Canadian exports of magazines into the American or other international markets?

Mr. Osborne: In a nutshell, we really do not export Canadian magazines into the United States. We do accept subscriptions. If Americans want to subscribe to Chatelaine, L'Actualité, Maclean's or what have you, we are delighted to service them. Indeed, my recollection is that we have 20,000 or 30,000 subscribers to Maclean's who are outside Canada.

Mr. Botting: Somewhere in that range.

Mr. Osborne: A lot of interested foreigners and a lot of Canadians living overseas want to stay in touch. It is not realistic to think that Canadian magazine publishers are ever going to make a business out of selling Canadian magazines in a US or a United Kingdom market. The economies of scale just make that an impossibility.

For example, Time magazine in the US has a subscription base of roughly five million which, when you use the 10-to-one ratio of Canada to the United States, makes Maclean's look pretty good in the Canadian context. I do not think there is a single women's magazine in the United States that has 11 million subscriptions. If there is, there are one or two at best, and we happen to have 1.1 million or 1.2 million subscriptions.

Mr. Botting: Our penetration per capita for Chatelaine is higher.

Mr. Osborne: It is even greater. We have penetrated our markets as well as one can. The thought of a Canadian edition of Maclean's or of Chatelaine competing against the enormous press runs of Woman's Home Journal, Woman's Day, Time, Newsweek, US News and World Report, etc., with their cost efficiencies, it is a nonstarter.

There is not an advertiser in the world who will buy a Canadian magazine to reach a US audience. He can reach a US audience much more cheaply by buying a regional issue of an American magazine if he wants a regional advertisement, or by buying the national issue if he wants the entire country. They are all world and all regional issues, so that is not an economically viable thing to do.

In broadcasting you never hear about American television stations complaining about Canadian signals swamping their market and taking over. The fact is that Americans, Buffalonians, or whatever the word is, and residents of Detroit prefer to watch, quite naturally, Detroit and American signals. Why would they not? It is their news; it is their information. The entertainment programming is often the same, although there are very large differences with the Canadian content on our signals.

I will give you an interesting example in Alberta. Calgary is roughly 490 miles from Spokane, which is the nearest large US city, although it is actually a fairly small city by US standards. The three major US network television stations in Spokane microwave their signals all the way to Calgary and all the way on to Edmonton, which is about another 250 or 300 miles. By the time they get them to Edmonton, it is darn near 750 miles away from their marketplace to get at that Canadian audience and to get at the advertising rate base that goes with it.

You can imagine what would happen in those marketplaces without Bill C-58 and similar simulcast regulations. There is no way we could economically justify doing the same thing going back into Spokane. Imagine for a minute the situation from Toronto. If CFTO or Global TV in Toronto were to microwave

itself 750 miles from Toronto, it would have Detroit, Pittsburgh, Philadelphia, Baltimore, Washington, New York and Boston; it would cover a huge percentage of the United States market with that. We are never likely to do that. The thought that they would ever allow us to do that is nonsensical; they simply would not. It will not happen. The only way in which they might would be to call our bluff and say, "We will do it as long as we can all come into Toronto." Then we would be thoroughly swamped. There would be 100 signals here, if not channels.

The thought that there is real room for export of magazines and broadcasting, which are the two key areas we have been discussing, is a nonstarter in that sense.

Could Maclean Hunter Ltd. start up a US magazine in the consumer field? I suppose we could, and we have often thought about it, but it is an extremely expensive thing to do. Time magazine paid almost US$500 million to purchase something called Southern Living in 1985 or 1984, which sounds like a small regional book. In fact, it has a circulation of two million, so it is a large regional book. However, just to buy one magazine was $500 million. The thought that we would go in and launch and try to become competitive with Time and Newsweek, in that sphere, is a nonstarter.

Mr. McFadden: I take it that you are probably expanding in the United States with newspapers through your Toronto subsidiary to some extent.

4 p.m.

Mr. Osborne: Partly newspapers, although we actually, through the Toronto Sun, have an interest in only one newspaper in the United States. We may ultimately have others, but this is not a chain of 80 or 90 or whatever; it is one newspaper. We do have a group of trade publications. Trade publications are those that go to mechanical engineers, etc. You are familiar with the industry, I am sure.

We have 10 or a dozen titles in Chicago and three or four around New York, some of which we created from the start and launched going back into the 1920s, and others of which we acquired either through merger, rescuing a bankrupt situation, or paying a big dollar to get into the market--big by our standards, not by theirs. There are opportunities for us to acquire in the trade publications field; there are opportunities in the newspaper field through the Toronto Sun, but there is not in the consumer magazine field. The broadcast field is off limits anyway because they have the same ownership restrictions that we do.

Mr. McFadden: My final question relates to the situation here with respect of competition. The Kent commission and the Davey commission before it raised the whole question of the rather remarkable concentration of ownership in the print media in Canada. Of course, a number of the companies have interests in broadcasting too, but I am interested in print.

Taking Maclean's magazine as an example and comparing it, say, to the situation we had with the Canadian Broadcasting Corp. a number of years ago--and it was the only outlet--do you think some of the problem we have here is that a Canadian who wants to buy a periodical weekly magazine has a limited range of choice of one Canadian one, basically? If the person wants to buy another one to get another point of view, he is really forced into Time, Newsweek, US News and World Report or some other American publication.

I have Maclean's beside my bed every night for my bedtime reading. I read a couple of articles before I go to sleep. You have a subliminal effect on me.

Mr. Botting: It does not put you to sleep, though.

Mr. McFadden: No, it does not.

Mr. Osborne: Time does.

Mr. McFadden: Yes, Time does.

If you look at the pattern of television viewing of news, one thing that has happened is that Canadians do not watch American news, in particular, because they get pretty well what they want out of CTV or Global.

Mr. Osborne: I do.

Mr. McFadden: A certain number do, but in the main markets it is the Canadian news that dominates. If the CBC were the only news outlet, a lot of people would be watching American news because they would get tired of looking at Knowlton Nash, Barbara Frum and its other people. They would want to watch whomever the Americans have to present.

I am wondering whether at least a bit of the concentration and a large amount of Time readership is a desire for competition and alternative media. We might be able to eat into Time if we had some other publication. I know we have a limited market. Economically it may not be viable, but I wonder whether part of Time's strength is not the lack of competition here in that market.

Mr. Osborne: I think you are absolutely right. As I said, I hope nothing I have said today has been construed as any attempt to shut Time out of the market. We believe in the total free flow of the communications media in that sense and, indeed, it has a circulation of roughly 360,000, if my memory serves me.

Mr. Botting: I thought it was a bit lower than that.

Mr. Osborne: It may be 320,000. I am giving you ball-park figures and I am afraid you have to accept them in that light. I do not have the specifics at this point.

Newsweek has a circulation of roughly 90,000 to 100,000. There is obviously a desire for that kind of information and magazine publishing and, indeed, that is super. We have no problem with that at all. All we are trying to do is to ensure that there is a framework within which there can be a Maclean's or something similar.

You make the point that there is not much competition in the magazine field. There may not be a magazine that competes directly with Maclean's on a national, broad base, but there is a host of smaller circulations, in either regional or specialty publications, that would challenge that concept.

The Alberta Report is a good example of a regional magazine. Saturday Night is a good example of a more specialized form of magazine publishing. There is the city publication form--I hate to call it regional--as in Toronto Life. There is a host of other competitive elements. There is not one other that is as broadly based and national in scope as is Maclean Hunter.

In the ladies' magazine field there is very substantial competition from Canadian Living and other similar books, including the books of Mr. Barrington, whom you met this morning, such as Homemaker's and a few others. I think they just launched one called Career Woman, which is a rejuvenated City Woman. In some areas there is significant national competition; in other areas the competition comes from regionals, specialty interests or more focused, targeted books.

Could the Canadian marketplace support another Maclean's? We may not be the most efficient publisher in the world, and I would be the last to try to claim publicly that we are, but my guess would be that to do what we are doing, you would need another $40 million of revenue as a minimum. That assumes you already have your infrastructure and staff in place. You do not get 85 people overnight. You work at it, train, hire, etc. Realistically, you would be looking at a fairly major investment of capital before you got to the point where $40 million of revenue would sustain that type of publication.

In addition, you would have to find a printer. There are not very many printers in Canada who can actually print that number of copies every week. That is not to say there are not printers who would be delighted to make the investment. We might even be tempted to make the investment to do the printing on behalf of another publisher. However, as a printer you would need to know that the publisher you are doing business with has the wherewithal to be around five years from now, because printing investments are at least a five-year payback; it is usually a seven-year to eight-year payback.

Mr. Chairman: I have a supplementary to Mr. McFadden's question. I may be misinterpreting this, but we heard a witness suggest this morning that a magazine similar to Maclean's would have occurred despite Bill C-58, that Canada was ripe for it.

Mr. Osborne: I do not know who would have published it. I can tell you this: I do not know about the support of the national New Democratic Party at that time, but the main opposition party and the governing party at that time were very supportive of the extension of Bill C-58 to include our industry. It was already in place in other fashions, as you know, but it was extended to include Time magazine and others in the mid-1970s. Although I was not there in the mid-1970s, as I understand from Don Campbell, Fred Metcalf, Lloyd Hodgkinson and people such as them who made these decisions, Maclean Hunter could not have run the risk at that time.

Mr. Chairman: You would not have tried it.

Mr. Osborne: No. In 1975 Maclean Hunter was a much smaller company than it is today. The costs and the risks attendant on that route were really quite startling. As it happens, and I am sure this is the genius of Lloyd Hodgkinson, Canada was correct, absolutely dead right. With the benefit of hindsight it is very easy to make that statement. Whether anybody could have taken the risk at that point, I do not know. I am a little sceptical about it.

Mr. Hennessy: Recently Maclean Hunter in Thunder Bay took over cable television from Duluth. When they rerouted it they went to Detroit instead. There was an argument about it. How does it operate with regard to profit, content and things such as that? Did it buy the service?

4:10 p.m.

Mr. Osborne: The cable operators do not buy broadcast signals. They act as a common carrier of broadcast signals. They pick up the signal from the air. In some cases they pick it off directly from the satellite, although that is infrequent. Thunder Bay is a little unusual in that regard. They then transmit that signal through hard wire to the home, where you have a converter box or a decoder if you want pay TV services, etc. Through the magic of cable, what would otherwise be a 13-channel spectrum on your TV becomes 24 channels or perhaps even 36 channels and upwards.

Mr. Hennessy: Did you say 36?

Mr. Osborne: There are some systems which can deliver 36.

Mr. Hennessy: Not in Thunder Bay. If you mean six, you are right.

Mr. Osborne: If you can believe it, but that is only because there are not enough television signals to fill the space.

Mr. Hennessy: There is no TV.

Mr. Osborne: That is right. There are cable systems built in the United States to carry 105 channels. I do not know how you can watch that much TV; nevertheless, there are systems built to that capability. In answer to your specific question, in the case of Thunder Bay, Maclean Hunter does make a payment to the local private broadcaster. I do not know if it is ex gratia.

Mr. Hennessy: Did you say Maclean Hunter?

Mr. Osborne: The Maclean Hunter cable division in Thunder Bay makes a payment to the local broadcaster. It is several thousand dollars; I cannot recall the exact amount. Is it Fraser Dougall?

Mr. Hennessy: Yes.

Mr. Osborne: I am sorry, I am not familiar with the particular method. We make a payment to him, going back historically to the days when the Duluth signals were first brought into that marketplace.

There is a certain irony in the Thunder Bay situation. For many years, the Duluth television stations absolutely refused to co-operate with our cable television operators in Thunder Bay. They refused to help us improve the signal from Duluth that was brought in over a relatively poor microwave leading into Thunder Bay. Even on cable, the Duluth signals were not of the best quality which the residents deserved.

Unable to make a deal with the Duluth stations, we made one with Canadian Satellite Communications Inc. to bring in camera-ready, satellite-delivered signals of a high quality. It is as though they are just off the back of the camera. The minute we made that deal, the Duluth stations all of a sudden found the wherewithal to include the microwave link, but it was too late.

The Reid Research group from Winnipeg did some research on behalf of our cable people in Thunder Bay. The balance of the population wanted the Detroit signals, obviously because of the better quality, and I guess because of the more national content that is evident there. It became quite a public brouhaha, as you may recall from the hearing a month or two ago.

Mr. Hennessy: You pay Mr. Dougall. Do you pay the Detroit stations?

Mr. Osborne: No.

Mr. Hennessy: Then you charge the general public.

Mr. Osborne: Yes. The general public is charged on the basis of a rate base. The Canadian Radio-television and Telecommunications Commission is the rate regulator, and the rate base is made up essentially of the capital we have invested in plants and satellite-receiver dishes--

Mr. Hennessy: Where do the Detroit stations come out giving you the signals for which you say you do not pay?

Mr. Osborne: That is another very interesting subject. The Detroit stations actually claim we should pay them. On the other hand, they are still very anxious for us to pick them up and broadcast them over our systems.

Mr. Hennessy: Why is that?

Mr. Osborne: It comes back to the phenomenon I referred to earlier, which is known as spillover. The Detroit stations cannot sell advertising in Thunder Bay very efficiently. It would be extremely expensive for a retailer, a manufacturer or whatever in Thunder Bay to buy a 30-second or 60-second ad on a Detroit television station. It is extremely expensive to buy time on Detroit stations to get a Thunder Bay audience.

Nevertheless, it is one more means for Kellogg, Nabisco, General Foods or whatever to get into Thunder Bay off a national advertisement. Therefore, if General Foods or Kellogg are advertising on NBC in the US, including Detroit, to the extent the Detroit signal is carried into Thunder Bay, they are getting Thunder Bay essentially as an added bonus. You can argue it is built into the freight the Detroit TV station carries. I would not want to prove that economically at this point. Ultimately, presumably in a free market that would be the case.

The border broadcasters argue there should be a copyright payment made by the cable operator to the border broadcaster for what is carried on the cable system in Canada. However, when their feet are put to the fire, they are happy to have us carry them because they get the spillover of the advertiser.

Mr. Hennessy: Do they hurt local TV with their advertising coming from Detroit?

Mr. Osborne: This would not be the case in every market, but I think you could make the case in Thunder Bay that taking the Duluth signals off helps the local broadcaster, Fraser Dougall, because he no longer has to compete with a Duluth station that might be affordable to a local retailer or hardware merchant. From the standpoint of one unique market such as that, there may be some gains, however minimal, to the local broadcaster putting more money into his editorial budgets and what have you at that level.

However, the danger with these distant signals from the US is that as the Detroit signals gradually pick up more and more of Canada, they become more and more a potential base buy for national advertisers wanting to get all of Canada. That will clearly, and is clearly, having some impact on national advertising revenue that is available to all broadcasters, including independent operators, such as the operation you referred to in Thunder Bay.

Mr. Hennessy: If you are looking at, let us say Thunder Bay, are there more cable users per capita of people having TVs or are there more people without cable who have TVs? Which is the greater?

Mr. Osborne: For those cities of Canada that have cable, the penetration level of cable subscriber to noncable subscriber is roughly in the 70 to 80 per cent range. Anywhere from 70 to 90 per cent of all people living within a cabled area take cable. It is as low as 50 to 55 per cent in St. Catharines. The reason for that is that St. Catharines is just over the border from Buffalo and the off-air signal is acceptable. Windsor did not have cable at all for the longest time because of its proximity to Detroit. The overall penetration rate, if my memory serves, is roughly 80 per cent. If you take the country as a whole and look at the areas that are cabled--the households that have access to cable and those that actually take it--it is roughly 80 per cent.

Mr. Hennessy: Thank you very much.

Mr. Chairman: That was an interesting discussion because last week we heard someone suggest in discussing spillover that by adding Windsor to Detroit, Detroit becomes a bigger market than Philadelphia and therefore can demand a bigger buck.

Mr. Osborne: Yes.

Mr. Chairman: Perhaps Thunder Bay is part of Detroit too in marketing parlance.

Mr. Osborne: So is the whole of Manitoba and Saskatchewan. Detroit gets in there as well.

Mr. Chairman: It has been very informative. Thank you very much for coming to speak to us.

Mr. Traficante: Mr. Arnott is just handing something out to you. It is, if you recall from this morning's submission--

Mr. Osborne: Am I through?

Mr. Chairman: Yes, thank you very much. We are into housekeeping.

Mr. Traficante: In the CBC submission, there was a reference made to a document produced by Thomas Wyman, who was head of CBS Inc. in the United States. This document was a result of hearings and a report prepared by Mr. Wyman, who was chairman of the advisory committee to the US trade representative. The advisory committee represents the numbers of media mentioned here: US motion picture, television, pre-recorded entertainment, publishing and advertising.

This was a submission or a list of recommendations made with regard to our preparation for the General Agreement on Tariffs and Trade discussions in 1983, that is, in anticipation of an additional round of GATT discussions. This has distinct relevance to the bilateral free trade discussions in this sense. If you recall when we were in Washington, we were told that a set of advisory committees representing various industries has to be involved in the negotiation process. The US trade representative has on a continuing basis to get advice from and inform the advisory committees representing each of the industries.

I do not know for sure, but I assume this advisory group, which was set up for the GATT discussions, would be the same group set up for the bilateral free trade discussions dealing with media industries. In that regard, it is probably a useful document in the sense that it would inform you of their interests with regard to media and culture. I do not want to read through the whole thing. You have already received the middle tables.

4:20 p.m.

Mr. Chairman: From the CBC.

Mr. Traficante: Yes. There are a couple of points that are probably important in the findings and recommendations. This is page 1. I will point you to that initially. There are four initial findings. The executives of the motion picture, television, pre-recorded industries, etc., mention the very first problem they have is with regard to copyright infringement.

In the second paragraph, they agree that the second most serious problem is the failure of the United States government to voice effectively its objection to trade barriers that are imposed by foreign governments under the guise of political or cultural concerns. For example, and this is the point I want to make, Canada places quotas on imported programming for cultural reasons but in effect is protecting its government-subsidized film and television production industry. The reason I point that out is that in this report Canada is the first country that is mentioned explicitly as a violator of what they regard as the rights of freedom-of-service trade.

Second, on chart 2, which is the centre table we received earlier--I think one part of it is upside down--Canada is the country which is cited most often. There are 14 separate columns and Canada is the country that is cited most often across, I think in 10.

Mr. Chairman: Thank you.

Mr. McFadden: To your knowledge, this has not been updated.

Mr. Traficante: No. We got this from CBS about a month ago and, to my knowledge, the committee has done nothing subsequent to this report. It is dated September 1984. It is the only thing I was able to find that represented the interests of the US media with regard to trade. I had the library do a fairly extensive search and we were not able to find anything else that talked about what they wanted to get.

Mr. Chairman: Do you think there would be any change in their attitude? Certainly we did not see it in September 1985.

Mr. McFadden: I would not think so. If they are going to make an issue of this at the GATT discussions, they are not likely not to make an issue of it somewhere else.

Mr. Mackenzie: Is there any formal structure of industrial subcommittees set up with the Canadian team? Presumably, that is one of the interests the provinces will have if they are involved, but I do not know of any similar system of industrial committees, such as exist in the US, to advise in the process of the trade talks. Can you check that out, unless you know offhand, because I do not?

Mr. Traficante: I know they were supposed to be set up and I think Mr. Light was supposed to be the chairman of the groups, but I do not know whether they have been set up.

Mr. McFadden: Correct me if I am wrong, but I understood, though I am not involved in it, Mr. Reisman's office apparently has specialists in each area and then there are industry groupings to advise. This model is somewhat similar to how the Americans have done it historically, and it was one of the criticisms that had been made of the previous negotiations under GATT. It was felt that American industry was more able to have an impact on the negotiating teams than our people, who were off somewhere negotiating and there was nobody around them much. I understood they were trying to resolve that by having it broken down by sectors, with all these advisers.

Mr. Chairman: That is my understanding. What is the staff now in Mr. Reisman's office? Is it 85?

Mr. McFadden: Yes.

Mr. Mackenzie: That is one of the reasons we could have asked more questions of the Ottawa people, but it would be useful to follow through and see just what has been done in that area.

The committee adjourned at 4:25 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

TUESDAY, APRIL 15, 1986

Morning Sitting

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Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Association of Canadian Publishers:
Bohne, H., President; with University of Toronto Press
Lester, M., Past President; Chair, Ontario Publishers Group; with Lester and Orpen Dennys Ltd.
George, M., Executive Director

From the Canadian Book Publishers' Council:
Lee, Dr. R. G., President; President, Collier Macmillan Canada Inc.
Muller, F. C. L., First Vice-President; President, Scholastic-TAB Publications
Hushion, J., Executive Director
Hickey, B., Second Vice-President; President, Harlequin North America Book Division

From St. Marys Cement Ltd.:
Blanshard, J. B., Senior Vice-President, Marketing

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, April 15, 1986

The committee met at 10:05 a.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: Good morning. We have with us the Association of Canadian Publishers. Its brief was distributed last week. With us this morning is Harald Bohne, president of the association; Malcolm Lester, past president and chairman of the Ontario Publishers Group; and Marcia George, the executive director.

Mr. Bohne: We thank the committee for giving us this opportunity to present our brief. I should tell you a little about our association.

The Association of Canadian Publishers has 130 members across the country, more than half of them located in Ontario. To be a member of the Association of Canadian Publishers, a company has to be Canadian owned. Any foreign-owned companies are automatically excluded from the possibility of membership. That is essentially the main difference between our association and the Canadian Book Publishers' Council, which I see will be presenting its brief after our session.

In case there may be some confusion in the minds of committee members, while the council also includes a number of Canadian-owned houses, some of them also members of our association, it has a large contingent of members of foreign-owned companies. Therefore, its view will probably be somewhat different from the one expressed in our brief. We talk basically about Canadian-owned companies publishing books by Canadian authors and, while I have not seen the brief of the CPBC, it is generally heard that in its recommendations it talks more about Canadian-based publishing houses and does not consider the ownership question, which we feel is essential as a prime concern to the wellbeing of the industry in the long run. This is by way of explanation of why you have to listen to two publishing associations presenting briefs this morning.

10:10 a.m.

As we understand it, the committee has been mandated by the Legislature to examine the economic, social, cultural and political implications of negotiating a Canada-United States bilateral trade agreement. The terms of reference are extensive, the task is huge and the final recommendation will be of vital importance to the future of Ontario and all of Canada. Therefore, we are pleased to bring our views to this committee.

The Canadian book market is worth an estimated $1.2 billion, but it should be remembered that 75 per cent of the books sold in this country are imported books. Canadian books by Canadian authors indigenously published in this country represent only 25 per cent of the total sales of books in Canada.

More important is the division between Canadian-owned and foreign-owned companies. The vast majority of the titles in the vital areas of Canadian

literature, Canadian studies, Canadian history, geography and biography available to the general public are being published by Canadian-owned houses, which have the publication of indigenous Canadian books as the major commitment in their existence. That is their raison d'être. Some of them are also agencies for foreign-owned publishers and therefore sell imported books as well as the books they originate themselves.

The other part of the market--the market that is not addressed to the general public, with the kinds of books you do not find in bookstores or in public libraries--is the educational market for elementary and high schools. Canadian-owned houses publish a majority, 80 per cent, of the titles by Canadian authors published in this country in the trade book market, but their participation in the educational market is much smaller. This fact and the numbers are given to you on a fact sheet in the brief, so I am not going to repeat them here. That imbalance in the educational market is one of the major reasons for the ownership policy announced by Marcel Masse and supported by this government.

Because of the fragility of the industry in Canada generally--and, as I said, so much of it is concentrated in Ontario--we are concerned that the inclusion of discussions on cultural industries in the free trade talks might seriously jeopardize the future of this industry. The industry has made enormous strides in the past dozen or so years. There are more publishers publishing more books by Canadian authors today than have ever before been published in this country. That is being done not because the book market, especially the trade book market, is a very lucrative one but because of the commitment of the companies to the fostering of Canadian literature and Canadian culture.

It is possible to have that kind of structure and that kind of program of publishing Canadian books only with an infrastructure that is supporting the industry. The market in Canada is relatively small in comparison with the United States market for books. The population is spread over a large area, and therefore it is extremely difficult for publishers to make ends meet or to make a profit in their undertakings. For that reason, programs such as the Canada Council program, the Ontario Arts Council program and the support programs from the federal Department of Communications, as well as the loan guarantee program in Ontario, have been established.

All these factors are potentially on the block if publishing and other cultural industries become part of the negotiations about bilateral free trade. Our association is extremely concerned about its future and the future of culture in this country and this province if this were to happen. If any of these programs were eliminated as a bargaining point with the US counterparts in the discussions, it might have very detrimental effects on the industry.

We are not talking about an industry that is protected in any other way. There is an open market for books. We can and do sell as many books abroad or conduct as many rights sales--that is, sell the right to a book to a foreign publisher, whether placed in the United States, the United Kingdom or Europe. We can do that. There is no tariff on books crossing the border either way, but when a few years ago the Canadian government, with the concurrence of the publishing and bookselling industries, zero rated the tariff on books, we noted a significant influx of American books as a result. The removal of the duty made American books more competitive in the marketplace and created additional problems and pressures on the Canadian publishing industry.

I want to assure the committee that nothing we say here should in any way be construed as hindering the free flow of information and cultural activity either way across the border. What we are concerned about is that in this industry, where free trade in that respect already exists, the demands that might be made by the US negotiators to remove some of the nontariff support programs from our industry would have very detrimental effects. We see it now in the lumber industry. Great pressure is being applied to remove what are perceived to be major subsidies--this is debatable, as we all know--before the talks even can begin.

We urge this committee to support us in our move to keep discussions of cultural industries off the bargaining table when the bilateral trade talks begin.

My colleague Malcolm Lester will say a few words on the general issue of cultural sovereignty and its importance to the destiny of this country and this province, and then I hope you will feel free to ask questions of one of us who is here to answer them.

10:20 a.m.

Mr. Lester: Before I talk about cultural sovereignty, I want to pick up one theme that Mr. Bohne mentioned: namely, the belief of the Association of Canadian Publishers that the ownership question is very important and, indeed, that a strong Canadian-owned industry is what is required to have a healthy, viable, creative Canadian book publishing industry.

As Mr. Bohne indicated, more than 80 per cent of all revenues earned from the sale of books in Canada accrue to foreign-owned companies based in Canada, the United States or the United Kingdom. No other civilized country in the world has as high a percentage of revenue accruing to foreign-owned companies. I do not have the exact number for the United States, but I would say that less than one per cent of the revenue earned from the sale of books accrues to owners outside the continental United States. Indeed, if the figure were as high as 50 per cent rather than the 80 per cent it is in Canada, we all know the Americans would be up in arms. We are talking about a highly unusual situation in Canada, unique in the world. We are attempting with a positive ownership policy to normalize the situation in Canada and make the Canadian reality congruent with realities in other countries.

When we talk about Canadian ownership, we are really talking about providing the ability for Canadian businessmen, entrepreneurs and publishers to participate in the revenues earned by foreign books in Canada so that they themselves can become financially more viable and structurally more sound, with the result that they can publish more Canadian books, and publish them successfully.

We have 100 per cent ownership in broadcasting; we have 100 per cent ownership in cable television. You cannot own a newspaper in Canada unless you are Canadian; you cannot own a television or radio station unless you are Canadian. We are suggesting that the time has come for book publishing. We have to move from a 20 per cent market position to, if not 100 per cent, then more than 50 per cent. This is normal; this is desirable.

In terms of the broader issue of cultural sovereignty, the discussions about whether free trade is a good thing or a bad thing for Canada really open up a much broader question: namely, what is this country all about? When we talk about culture in Canada, we are talking about culture in its widest

sense: what defines us as a people. For Canadians, culture represents our very essence: our historical traditions, our political traditions and the kinds of things that make us unique as a country.

When people in the United States talk about culture, they mean things such as the Public Broadcasting Service, the New York City Opera or the Alvin Ailey Dance Theatre of New York. Books, films and television are part of the entertainment business in the United States; they do not consider that culture. In Canada everything that defines us as a country is culture.

We define things as culture in this broad way because, in a sense, they are endangered. They are endangered by foreign dominance, particularly American dominance. We often consider that something has cultural value if it is endangered in some way. You may recall that when the Calgary Stampeders football team was threatening to go out of business for lack of support, editorials appeared in the newspapers in Calgary suggesting that the government should step in to protect the team because it was a valuable cultural resource to the community. That is a good example of what I mean when I say that things that are cultural are often those things in our country that are in danger.

When our association says, "Keep cultural industries off the bargaining table," what do we mean? We mean simply that we should keep off the bargaining table those policies that make it possible for Canadians to have a culture. As Mr. Bohne mentioned, these include the Canada Council and the book publishing program of the Department of Communications. In Ontario the Ontario Arts Council, the Ontario Development Corp.'s loan guarantee programs for publishers, Circular 14, which provides for Canadian-authored and Canadian-manufactured educational texts in the province of Ontario before they can be acquired by schools in this province. These are all irritants to Americans. They do not like Circular 14.

They do not like to be told that, to sell their textbooks in Canada, those have to be manufactured in Canada and be offered by Canadians. They would like to sell American textbooks in Ontario. They do not like the Department of Communications' book publishing development program because their American subsidiaries cannot participate in some of those financial programs. They feel that gives the Canadian companies an unfair advantage over the American companies.

They do not like things such as the ownership policy the government announced last July, because they feel they should have the right of establishment wherever and whenever they want. They think it is wrong for a country to say, "You cannot do business in Canada unless you do it in the form of a joint venture with a Canadian company." These are the policies that are going to be up for negotiation.

If we start bargaining away the structural policy, both provincially and federally, then what we are going to bargain away is our culture. Without this kind of provincial and federal infrastructure of programs that makes a culture possible--and in our case, it makes a book publishing industry possible--then there will not be a Canadian literature; there will not be a Canadian culture; and in the long run, there will not be a country.

Mr. Chairman: Thank you very much.

Mr. Mackenzie: Mr. Lester, would you see in the bargaining process or would you agree with trading off industrial capacity or development to protect cultural interests?

Mr. Lester: No. I would hate to have to make that choice because I think it is a Hobson's choice. That is why we say, "Let us not put culture on the table." Culture is special because it is what makes us a country. Let us keep those programs that are in place to make that culture possible off the bargaining table. That is precisely what we are afraid of: If this gets on the bargaining table, then we get into this tradeoff situation.

Mr. Mackenzie: Do you think it is possible to enter into negotiations, as we were initially led to believe we would be, and carve out certain items or sectors from the negotiations?

Mr. Lester: Yes, I do.

Mr. Mackenzie: How do you respond to what seems to be coming out so far, both from Mr. Yeutter's comments in Calgary and certainly what this committee was told in Washington, that everything has to be on the table, that we were kidding ourselves if we thought otherwise?

Mr. Lester: When we go in, I am perfectly aware everything has to be on the table. That is fine. However, then you can say: "Okay, we have decided everything is on the table. These are some of the things we want to take off it." That should be the process in the negotiations with the Americans.

Mr. Mackenzie: One of the difficulties I have with that, having done a bit of negotiating over the years, is that the minute you have everything on the table and then decide you are going to take certain things off, whether you like it or not, you have immediately chalked up a couple of points for the opposition.

That is exactly my point. If we are entering into these comprehensive bilateral discussions, even if we agree to take cultural or other items off the table, then we are going to be faced with a much stronger attack on things such as the auto pact, which is probably the only industrial value-added success story we have in this country.

Mr. Lester: I agree. In a way, I am very sorry the Prime Minister and the Secretary of State for External Affairs did not keep culture off from the beginning. For whatever reasons, they felt they could not. Now we are getting into the kind of situation you describe. I am fully aware of the danger.

Mr. Chairman: Thank you very much. Are there any other questions?

Mr. Barlow: As is well known, you mentioned that 80 per cent of our book sales in Canada are foreign sales, whereas in the United States it is approximately one per cent.

Mr. Lester: Yes.

Mr. Barlow: What about other countries? What about Europe, Britain and so forth? Do you have any ball-park figures?

10:30 p.m.

Mr. Lester: Yes. I do not think the indigenous sales are less than 50 per cent in any western countries. We could get those figures for you to have on the record, but I would say that in every western country, sales of indigenous books would be at least equal to or greater than 50 per cent.

Mr. Barlow: You covered this, but I want to go over it again. Your feeling is that culture should not be on the bargaining table in any way, shape or form. As you say, it is a broad industry; football, hockey, lacrosse and so forth can be considered culture.

Mr. Lester: I do draw the line at Dominican baseball players with the Blue Jays.

Mr. Barlow: I hope so. Do you feel culture should be treated as a package?

Mr. Lester: I do. I am also worried that we may start trading off one cultural policy for another. The Americans might say, "We do not like Bill C-58." Bill C-58 made it possible for Maclean's to exist as a weekly newsmagazine because the bill does not allow tax exemption for companies that advertise in American magazines. It was a very positive incentive for Canadian advertisers to advertise in Maclean's, which is an irritant to the Americans. They do not like it.

They may say: "Okay, we will let Bill C-58 stand, but we do not want Circular 14. Give us Circular 14." This could mean the demise of Canadian-authored books in the schools, or vice versa. To get into that kind of bargaining, to start playing off one cultural industry against another, would be a tragedy for this country.

Mr. McLean: I have a supplementary on your first question. Was that 25 per cent published and sold in Canada?

Mr. Bohne: Yes.

Mr. Lester: Yes.

Mr. McLean: What percentage of the books sold in Canada were published in Canada; 25 per cent? What percentage was exported to other countries from Canada? You are importing 75 per cent; what is your export?

Ms. George: As yet, export is never a very large part of the industry. The total market probably hovers between one per cent and three per cent of total sales. It is an expanding market.

Mr. Lester: We have the figures on page 8. In 1981, the Canadian-owned sector generated $103 million of export sales. Harlequin is one of the reasons the Canadian-owned sector is high. It is a Canadian company that exports all its romance paperbacks to the United States.

The point we make in the brief is that the Canadian-owned publisher is outperforming the foreign-owned competitor in Canada. We go on to say that the foreign-owned publisher has a disincentive to export because he would be competing with his parent company's own books. That is why the Canadian-owned sector outperforms the foreign-owned sector so highly.

Mr. Bohne: As a follow-up to this answer, it should be pointed out that Canadian publishers selling their books abroad often sell foreign rights rather than actual books. On the other hand, the importation of American books to Canada--Canada being a smaller market--does not really warrant a separate printing of those books. The Canadian agent or publisher imports a percentage of the American print run to sell in Canada, whereas the reverse is true: You actually sell rights and the American or British publisher prints those books

in their country. There is a distinction about selling rights and selling books.

Mr. McLean: Could I ask one further question? I know some people sell books in Canada to school boards; where are those books published?

Mr. Lester: In Ontario, those books have to be both manufactured and written by Canadians, because that is the law in Ontario. Books have to be approved by the Minister of Education, and to be an approved purchase by the government and the school system, to be an approved book in Ontario, they have to be Canadian-authored and Canadian-manufactured.

The Macaulay commission recommended a third component be added to these conditions, namely, to have them purchased from a Canadian-owned company, a proposal our association endorses 100 per cent. In other provinces, they do not have those guidelines. In British Columbia, for example, they can purchase American-authored or Canadian-authored textbooks. Often, what happens is that the foreign-owned company operating in Canada adapts a foreign-authored textbook for the Canadian market. That cannot happen in Ontario.

Mr. Chairman: Do I understand you to be saying that 80 per cent of revenues generated from the book market accrue to the foreign-owned sector and that this is unique in the world?

Mr. Lester: Yes.

Mr. Chairman: Are there small countries that would be an exception?

Mr. Lester: No, because in small countries, I would say, because of the language difference, let us say in Switzerland--

Mr. Chairman: Liechtenstein.

Mr. Lester: I do not know how much indigenous publishing there is in Liechtenstein.

One of the reasons the sales of indigenous books is so low is that we speak the same language and share so many values in common with the Americans. If we spoke a different language, it might be an altogether different state of affairs.

Mr. Cordiano: With regard to that similarity in language, I have always wondered what the situation would be in Austria vis-à-vis Germany.

Mr. Bohne: I am a little biased because I orginally come from there, though I have been in Canada for about 30 years. In Austria and Germany, the German-language market, the distribution system is very integrated. The German-language sector of Switzerland and the Austrian market are really distributed by one big network. The market there is not very separated, but there is not the kind of cultural imperative that is required in the case of a culture such as Canada's which is, by virtue of the mass media, so dominated by American interests.

In a way, the Canadian situation is quite unique. Coming from a European country originally, I was amazed to see how great is the United States' influence on daily life in this country. I came to this country as a great internationalist and was turned into a nationalist by what I saw happening around me in the school system and in our bookstores. I am much happier today

because things have begun to turn around, but we still have a long way to go and we will always have an uphill fight because of the dominance of the American entertainment industry, which is so prevalent in this country.

As an example, a couple of days ago a movie was being filmed at the new Koffler centre where the University of Toronto has its bookstore. When I walked back from lunch, there was an American mailbox outside that store. It will show up as an American college bookstore somewhere in a future Canadian movie.

Mr. Lane: My question is just a point of clarification. You mentioned something in your remarks about joint ventures. Is there any US investment in the Canadian book publishing industry through joint ventures at this time?

10:40 a.m.

Mr. Lester: Yes, there is. There is the joint venture between Bantam Books and Jack McClelland to form Seal Books Canada, which is a mass market paperback line. There is a joint venture between Simon and Schuster and General Publishing for the distribution of Simon and Schuster's books in Canada. That joint venture, by the way, was a result of a Foreign Investment Review Agency decision in 1976.

Under the new policy guidelines enunciated by Marcel Masse at Baie Comeau last July, there cannot be any changes in ownership, either direct or indirect, by an American parent of a Canadian subsidiary without divestiture to Canadian owners within two years. No new foreign publishing business can be set up in Canada unless it is in a joint venture with a Canadian company.

As you know, about a month ago the decision came down from Ottawa to allow the sale of Prentice-Hall to Gulf and Western. The government maintained that acquisition took place prior to the announcement of the ownership policy. The government did block the sale to Gulf and Western of Ginn and Company, a major American-owned educational publishing company operating in Canada. It called for divestiture to Canadian ownership within two years at fair market value.

Under the new policy, that is the first such a case. We see it as a very important case. We hope that within two years there will be two Canadian partners.

Mr. Lane: You see no joint venture programs in the future. Is that what you are saying?

Mr. Lester: No, I see the opposite. I see an ongoing process of joint ventures.

Mr. Lane: I was wondering if that would not be the way to go in order to control the business and still get some investment from the United States.

Mr. Lester: Absolutely. What I was saying as background is that there is ample precedent for this.

Mr. Ferraro: By way of background information, there are 173 Canadian publishers and 130 members of the association. Is that right?

Mr. Lester: That is right.

Mr. Ferraro: Would the 173 publishers be typical or higher or lower compared with other countries on a per capita or average basis? Do you have any idea?

Mr. Lester: I think they are about the same.

Mr. Bohne: Yes, I would say they were typical.

Mr. Ferraro: Would the same apply to writers, or do you know that? Are there the same number of writers proportionately in Canada as in other countries?

Mr. Bohne: I would think so.

Mr. Lester: In terms of writers per population, I would say the proportion is fairly typical.

Mr. Chairman: Are there any other questions?

Thank you very much. I gathered from your presentation a good, wide definition of culture, but one that is not quite inclusive of all economic factors or everything would be off the bargaining table. I think the committee is generally with you in a lot of your thoughts today.

The committee met in camera at 10:44 a.m.

10:45 a.m.

Mr. Chairman: We have with us this morning the Canadian Book Publishers' Council. Would you people come forward and make yourselves comfortable?

We have with us today Dr. Ray Lee, Larry Muller, Brian Hickey and Jacqueline Hushion. Perhaps you could identify yourselves, and then whoever wishes to make the presentation can commence.

CANADIAN BOOK PUBLISHERS' COUNCIL

Dr. Lee: I am Ray Lee. On my right is Brian Hickey, who is second vice-president of the Canadian Book Publishers' Council this year and president of Harlequin. On my far left is Larry Muller. He is first vice-president of the Council and president of Scholastic-TAB Publications. On my immediate left is Jacqueline Hushion. She is the executive director of the Canadian Book Publishers' Council.

Perhaps I should start with a word about the Canadian Book Publishers' Council. We have 51 publishing firms that belong to the council. Half of those firms are Canadian-owned and half are foreign-owned.

We employ more than 3,000 Canadians. By the way, all but two of our companies are based here in Ontario. We have more than 11,000 Canadian-published titles in print. We span the entire gamut of publishing. Publishing, as I am sure you know, is not a homogeneous industry. Our members publish school textbooks, university textbooks, trade books, general interest books, mass market paperbacks and professional reference books, and are even into computer software.

The Canadian Book Publishers' Council accounts for almost 75 per cent of the sales of English-language Canadian-published books. Its members also account for 85 per cent of the sales of all English-language books in this country.

We have circulated our submission to this committee through the clerk in advance of this hearing so I am not going to dwell in detail on its contents, but I would like to speak to two or three major points that we raise in that submission.

It has to be recognized that what most of us understand by "free trade" already exists in the book publishing industry. There is in general, and I say "in general," no tariff barrier to the passage of books across our border. This free movement of books and knowledge is a world-wide phenomenon to which essentially all countries subscribe.

Despite a small population base and easy access to books from the entire English-speaking world, Canada has built a strong indigenous publishing industry, to the point where one in four books purchased here each year is Canadian-published.

If you look at that in the context of Canada's population versus the population of the English-speaking world, you will see that represents a remarkable achievement. More than 90 per cent of this Canadian publishing industry is based in Ontario.

This has been accomplished through three mechanisms. We feel these mechanisms could be construed as nontariff barriers in the context of free trade. In our view, these should not be dismantled and indeed, in at least one instance, should be strengthened.

10:50 a.m.

First, we assume that Canada, in common with most countries around the world, will insist on being able to control its own educational curriculum. It has been Ontario's implementation of Canadian authorship and manufacturing requirements for textbook approval in schools that has been largely responsible for what we have today: an Ontario-based textbook publishing industry that generates 79 per cent of all books used in Canada's schools. By the way, that industry is beginning to export its output to other countries.

Second, various levels of government, through such bodies as the Canada Council and the Ontario Arts Council, have supported writers through grants and subsidies, making it possible for a wide body of Canadian literature to exist that might not otherwise have seen the light of day. We assume neither of these items will be given up during free trade negotiations.

Third, owing to the problems created by the size of our market, it should be understood that most Canadian publishers depend on imported books for a good portion of their revenue. These books are distributed in Canada under an exclusive agency agreement with a foreign publisher. Without these distribution revenues to cover part of their overhead, many Canadian firms would be unable to afford the infrastructure that makes their Canadian publishing program possible.

This system and these revenues are threatened by what we call "buying around"--that is, the direct importation of books by retailers and institutions, despite their availability from a Canadian source. This practice

is especially prevalent in universities, colleges and public libraries, all of which fall under provincial jurisdiction. As we move into free trade negotiations, this agency system must be strengthened, not weakened.

We thank you for your patience. We are prepared to comment further on these ideas and those expressed in our brief and to answer any questions you might have.

Mr. Chairman: Thank you very much.

Mr. Mackenzie: The Canada Council has incentives that have been used to assist in the development of our cultural industries. A number of groups made the point yesterday that these incentives are essential, yet they will be seen in any trade talks as unfair subsidies. What is the position of the Canadian Book Publishers' Council on the ending of such subsidies? How much of a problem is it to you?

Dr. Lee: It would be a problem to the writing community. Mr. Muller, you might be the right person to answer this.

Mr. Muller: It would be regarded extremely negatively. In the 20 years I have been in publishing, I have seen a genuine flowering of Canadian culture. Some of it was a hothouse approach in the study of the Massey commission, but in general, the creative resources in this country have really blossomed. The fortunate thing now is that we have a very strong publishing industry, so writers have a much better opportunity to get published than they did 30 years ago.

I am on the executive of the Canadian Authors Association. I can say on its behalf that to reduce or diminish in any way the support writers can get directly will be regarded as a very bad move, providing, of course, that the support is for things that meet certain criteria. I do not think that even the authors' association would want blanket support. A certain kind of selection and distinction must be made.

Mr. Mackenzie: I will ask you the same question I asked the previous group. In the event of any serious negotiations, would you be supportive of trading off industrial activities, incentives or initiatives that we have in this country to protect some of our cultural industry?

Mr. Muller: In any negotiation there will be offsets. I would not be happy with that kind of offset. On the other hand, having dealt with Americans for many years, I do not think that kind of offset would be seriously demanded. That is my personal opinion.

We have a very good industry. It is soundly based. It has certain vulnerabilities. We have to protect it against those vulnerabilities, but in general, I cannot see serious offsets being required in publishing.

Mr. Mackenzie: You are of the opinion that, regardless of what may have been said up until now, we can sit down and negotiate and carve out certain sectors in any set of negotiations.

Mr. Muller: My personal feeling is that one can negotiate and get the other person to see why you are negotiating and get him to indicate certain things are, for the reasons you have expressed, really non-negotiable. I am now giving my personal reaction, having dealt with some of these things, and I would appreciate hearing from the other members here. A good negotiation

puts things on the table. Then you start to identify from the highest priority to the lowest priority, and then you horse trade among the things you can really afford to trade. That is a personal feeling.

Mr. Mackenzie: I am sure Robert White and the auto workers are going to have a different view of the horse trading, if it comes about, when they are faced with the choice of the auto pact. It is not that they would not be supportive of culture.

Mr. Muller: We put culture very high, of course.

Dr. Lee: I think you have to distinguish between "culture" and "cultural industry."

If I can express a personal viewpoint, I do not think publishing in and of itself is necessarily a cultural activity. I do not think the publisher is a value-added service as far as our culture is concerned. It is a means of getting the expression of our culture, which is really what the writer is doing, to the marketplace and to the widest number of people.

Mr. Mackenzie: Are you concerned with the percentage of earnings? Do they appear to be going out of Canada? I think the previous group said it was about 80 per cent.

Dr. Lee: I am glad you raised that question. It gives me an opportunity to explain the number.

That number is arrived at by starting with Statistics Canada's estimate of the total book market in Canada, which is about $1.25 billion, and then looking at the revenues of Canadian-owned publishers, about $250 million to $300 million. However, the whole thing is badly obscured by the fact that almost $700 million worth of book revenue is accounted for by what I describe as "buying around." It does not accrue to anybody in Canada, not to a foreign-owned firm or a Canadian-owned firm. Many of these books can and should be sourced in Canada. If we were to take that $700 million and redistribute it among those publishers that operate in Canada, Canadian-owned companies would account for about 40 per cent of Canada's book marketplace.

Mr. Mackenzie: Can we accurately redistribute it? I know my colleague picked up differences in the figures in the two briefs.

Dr. Lee: If you redistribute it on the basis of the existing revenues from the distribution of imported books by Canadian-owned houses and foreign-owned houses, and if you assume that the $600 million or $700 million breaks the same way--and I am not sure how else you would guess it at the moment--then yes, that is the number you would come up with.

Mr. Mackenzie: I hope you are correct in the separation. I must confess to a little more cynicism about the ability to carve out certain sectors and say these are not on the table.

Mr. Callahan: Is there in the United States a system such as there is here, the equivalent of the Canada Council and the Ontario Arts Council?

Mrs. Hushion: In the United States there are agencies such as the US information agency and others that assist publishers more from an international perspective. The level of domestic assistance, or assistance for domestic purposes, is lower than it is in Canada.

Mr. Callahan: I asked that because we heard that the question of subsidies or assistance would arise in some of the negotiations that would go on if discussions of free trade were entered into. Despite the fact that support may not be domestic, but rather is international, is it on a par with the assistance given in Canada?

11 a.m.

Mrs. Hushion: No, it is not. In fact, most countries around the world are not on a par. Many of the European nations and Australia are quite jealous of the assistance given to and the attention paid to the book publishing and writing sectors in Canada.

The United Kingdom is well ahead of us in that regard. It must be remembered that when we are talking about the issue of subsidy, we should determine whether that subsidy gives the ultimate product a competitive edge over an equivalent product in another country. Subsidy in Canada has only allowed certain Canadian books to be published and has allowed the prices to be kept somewhat lower than they would be without subsidy, considering some of the difficulties we have with economies of scale. The subsidy in Canada in this industry does not provide the Canadian book with an unfair competitive advantage over the American or British book.

Mr. Callahan: In reading some of the inflow of American books here, it would seem as though we should have a protectionist policy in much the same way we are hearing the United States talk about that. Why are the rules laid down so American books can flow up here without any barriers whatsoever? That is what I read in the brief anyway.

Dr. Lee: That is true worldwide. There is a general feeling in all countries in the world that there should be no barriers to the passage of books or knowledge.

Mrs. Hushion: Historically, there was a tariff barrier. Until January 1979, there was a 10 per cent duty on all books entering Canada from the United States. Canada negotiated with the United States in regard to that duty because, at the same time, the US had a manufacturing clause which blanketed other countries and basically stated you could not export to the United States more than a few hundred copies of a book which was not manufactured there. Canada wanted an exemption from that clause so that a good number of Canadian publishers who were exporting would be able to seize opportunities in the US market, and so Canadian allied sector groups such as manufacturers, binders and typesetters would be able to compete for that North American business. The Americans did exempt Canada from the manufacturing clause and the quid pro quo was the elimination or the zero rating of the duty on imported books by Canada.

Mr. Callahan: Recognizing the large flow of books into Canada from the United States, would the advantage to Canadians of being able, through whatever mechanism, to have their own market free from that inflow of American books be greater than the opportunity they now have for the outflow?

Mr. Hickey: It depends on whom you are talking to. For Harlequin books, the advantage would not exist. We prefer the situation as it is, as we export a great many books. This issue can get a little muddled when we talk about the books that are bought around in that, first, it is an estimate. It must come under extreme question in terms of the real size and what those books are. Could we protect the industry? There are ways of doing that, by

forcing it through some sort of distribution or agency system that exists in Canada but still allows someone else's books full access to this market. I submit that qualifies as freer fair trade.

Mr. Callahan: Are the books that are successful in being exported from Canada written in a Canadian vein or with a Canadian cultural aspect to them or are they written in such a way to be attractive to the US market, in sort of a neutral vein?

Dr. Lee: One of the most successful books in the US at the moment is Margaret Atwood's latest novel. I leave it to you to judge whether it is written with Canadian cultural content or a view to the US market.

Also, we are beginning to export school textbooks in reasonably large quantities to states such as Louisiana that need French-language instruction. There has been a major sale recently of an elementary school reading program to California by a Canadian-based company. These were textbook series and books that were developed for the Canadian school system, in Ontario primarily. To my knowledge, they have not been modified by one comma to sell in the US.

Mr. Callahan: So we are telling Americans they should not put their skis on their cars and come up here during the summertime.

Dr. Lee: That is right.

Mrs. Hushion: I think it is also important to note that a considerable number of college and university publishers have had very good luck in their efforts in the US, on the northern tier and on the eastern seaboard, in exporting graduate and post-graduate textbooks on Canada for Canadian studies courses. Several states on the northeastern seaboard have a mandatory Canadian studies curriculum from grade 5 to approximately grade 9. The American industry is not going to produce the materials that will assist the teacher deliver that curriculum. Canadians are going to produce those materials.

Mr. D. W. Smith: I am going to ask this in the light of some of the reports that have come out through the media of late that say maybe the US does not want to discuss free trade. In your industry, do you feel the people in the US want freer trade than we have now, or do your counterparts feel they want things changed tremendously or very little? How do your counterparts in the US view this whole issue?

Dr. Lee: I go back to my original comment that for most practical purposes, we already have free trade in the book publishing industry. If an American company is looking to sell its books in Canada, it has several mechanisms available to it and essentially no trade barriers. It can sell directly, as several companies do; it can put its books into a wholesaler, and several companies do that; or, if it has established a company here already, it will sell through that company.

One point I want to make is that because those alternative mechanisms exist, the only real reason to establish and have a company in Canada is to publish Canadian books.

Mr. D. W. Smith: As far as you are concerned, you cannot see a lot of changes coming in your industry anyway, from the US point of view.

Dr. Lee: My judgement is that they are not going to be pushing for very much.

Mr. D. W. Smith: Unless we tighten things down in Canada a little more; that is the only way you can see it changing.

Dr. Lee: Exactly.

Mrs. Hushion: It is clear the Americans are concerned about the potential for reimposition of a duty on books in Canada. On July 1, the US manufacturing clause will expire in effect. The Congress is now looking at a variety of bills that would allow a continued exemption for Canada. Ten days ago, the Association of American Publishers met with the American book manufacturers and the labour unions, and I believe they are very close to coming to a settlement.

The Association of American Publishers is supporting our position on this manufacturing clause. They believe that Canada should be exempted and that Canadian manufacturers of books are not a threat to US manufacturers. Clearly, they expect that if they give us that exemption we will not reimpose the tariff on books. They are definitely looking at that as a potential major concern and something they fear we might bring to the negotiating table.

11:10 a.m.

Mr. Morin-Strom: I would like to ask a question on some of the figures you have in your presentation and Dr. Lee's remark that, in your view, the position of Canadian books within the Canadian market was a remarkable achievement. Here you say, "The healthy condition of the Canadian market could be seen in the following comparison," and you used the analogy that while Canada represents five per cent or less of the English-speaking population, Canadian titles represent five per cent of the output of the English-speaking population. Then you used the comparison that 23 per cent of the books read in Canada are Canadian.

To me, you are comparing apples and oranges. There is a wrong basis for comparison. If you want to talk about the share of the English-speaking population that is Canadian or the number of books read, you should use the same basis. If Canadian books represent 23 per cent of the Canadian market and presumably the Canadian market is something like five per cent of the English-speaking market, the Canadian books sold here represent only 23 per cent of five per cent of the English-speaking market. It is something in the order of one per cent of the English-speaking market for books that is represented by Canadian books, at least those sold in Canada.

The only way we could possibly ensure that we would be getting a fair share of the output of books in relation to the number of books purchased or read in Canada would be if we had a substantial share, three or four per cent of the balance of the English-speaking market, outside Canada. Do we have a substantial share of the book market outside Canada that would allow us to say Canadian books represent a fair share in proportion to the number of books purchased and read in Canada?

Dr. Lee: The short answer is no. The Canadian book publishing industry is not in and of itself an exporting industry. That is not its reason to exist. It is publishing for a home marketplace in direct contrast to an industry like that in the United Kingdom, for example, which is and always has been largely based on export sales. It is not primarily publishing books for sale in the UK. It lives or dies by its export market.

The point I was trying to make was that within Canada we have access to books in the English language from all over the world. They are available and sold here in Canada. The number of Canadian titles and the number of Canadians relative to the rest of the English-speaking world is very small, a matter of five per cent. Despite the fact the other 95 per cent of the titles are available here, one in every four books that Canadian choose to buy and read are Canadian-published books. I think that speaks for a very healthy, competitive publishing industry within this country.

Mr. Morin-Strom: Are we selling five per cent of the books in the English-speaking world? Are Canadian publishers exporting sufficient numbers to account for five per cent of the English-language books published?

Dr. Lee: I doubt it very seriously.

Mr. Morin-Strom: Then how do Canadian authors have access to that market?

Mr. Hickey: Canadian publishers would have to take advantage of the access to that market. I can relate a short story to you about Harlequin's international origins. We started by going directly to Canada. We then moved into the US market and competed directly with Americans in that marketplace and were successful. From there we wanted to move our books around the world and we went to publishers and tried to sell rights, the traditional way of doing it.

No one was interested in taking our books on, so we said that if they will not do it, we will set up a publishing company in these other marketplaces; that is what we have done. Today we have companies that publish and compete in England, Italy, Spain, Greece, France, Germany, Japan, Australia--the list goes on. We publish and compete. In every one of those markets, within the specific romance marketplace that we define as our area of competition, we have more than a 50 per cent share and, in a lot of cases, an 80 to 90 per cent share of that marketplace. It was a matter of going out and getting it, having the right books and promoting them.

Mr. Morin-Strom: Your company has been very successful in penetrating markets outside Canada. In your markets outside Canada, what percentage of those books are authored by Canadians and what percentage of them are published and produced and manufactured in Canada for export to the US, Britain and these other markets?

Dr. Lee: Some are very difficult to define. Editorial control would rest in our Toronto offices, and as such, I guess you could say we publish 100 per cent of the books. If that is where the editorial decision is made, they are published in Toronto.

Manufacturing varies. We make commercial decisions and move the manufacturing to where we can get the best price. For the North American market, we produce outside of Montreal and in Buffalo. In terms of the total production broken down between the two, that varies depending on where prices stand at any point in time. We must be commercially viable, and that is where we make that decision. I would guess that we would probably fall somewhere in the neighbourhood of two thirds in Buffalo and one third in Montreal as an average over the past couple of year. That can change.

Mr. Morin-Strom: Of the books sold in the US, what percentage are manufactured here in Canada, and what percentage are authored in Canada?

Mr. Hickey: Manufactured? I would say over the past two years, the average has probably been about one third. But as I say, that can change. If the price of paper is substantially reduced in Canada relative to the US, we can very quickly be producing 90 per cent of the books to be exported into the US. It is just a commercial decision we make.

Mr. Muller: May I add a comment to your question? You are looking at these figures in terms of the Canadian percentage vis-à-vis the English world and the percentage of Canadian books in the English-speaking world. Looking at the current situation is rather misleading, because we are in a very dynamic situation.

British publishers started in 1430 with Caxton, but the Americans started by pirating Dickens more than 100 years ago. In my experience, Canadian publishers such as Macmillan really got steam going in the 1960s. If you were to graph the growth of Canadian publishing and the growth of Canadian book exporting, you would see a very exciting development.

I came back at 5:30 last night from Bologna. At the Bologna book fair this year, there was a vast horde of very good Canadian publishers, with superb world-class products, doing a lot of business. Seven years ago, when I went to my first fair, we were the Johnnies, we were the orphans, we did not feel too sure, or whatever.

I have no doubt whatsoever that Canadian publishing, as a percentage of the world English-speaking content, not only is going to reach the same percentage as our population but also will exceed it. One reason is that we have such lousy, long winters that perhaps writers write more. We and the Scandanavians have a lot in common. I have no fears that Canada will play a major role on the world publishing scene. -

Interjection: How was the weather in Bologna?

Mr. Muller: It was cold and raining.

Mr. Morin-Strom: We have a long way to go.

Mr. Barlow: First, Dr. Lee, just for the record and for my information, I assume you are headquartered in Cambridge.

Dr. Lee: Actually, I work out of our Toronto office. But you are very well informed; we have our major installation in Cambridge.

Mr. Barlow: I wanted to put that on the record. I guess it was not more important as that.

In the very first line of your brief, you say 51 Canadian companies form your association. Correct?

Dr. Lee: Canadian-based companies.

Mr. Barlow: How many are Canadian-owned?

Dr. Lee: Twenty-five.

Mr. Barlow: Are the other companies US-owned or owned in other countries?

Dr. Lee: I think nine are British and the rest are American.

Mr. Barlow: From an association point of view, you are really competitors of the previous association we just heard from. I am curious because we just heard from them.

Dr. Lee: We do not look at it in that light.

Mr. Barlow: Do any of your members have a joint membership?

Dr. Lee: Yes, they do. I think you have to recognize that the aims of the two organizations are somewhat different. We are an industry trade association. We are not pushing any particular political point of view. For that reason, six of our members have felt their interests could be served in different ways by the two organizations.

Mrs. Hushion: I might note that the ownership of the companies within the council is totally irrelevant to their contribution to Canada. All the members of the council publish Canadian books for domestic consumption, for export and across all genres.

11:20 a.m.

Mr. Callahan: As a matter of interest, Harlequin is published by Torstar, is it not?

Mr. Hickey: It is owned by Torstar.

Mr. Callahan: Somebody told me that was a good stock because the dividends were paid in US funds.

Mr. Hickey: My instant reaction is that I think that is wrong. I was going to say it is wrong, but I think it is wrong. I receive some dividend cheques in Canadian funds; I do not believe they are in US funds.

Mr. Callahan: I am just trying to get some inside information.

Mrs. Hushion: Let us go down to the exchange.

Mr. Callahan: Are you trying to boost your stock?

Mr. Chairman: Are there any other questions? No. Thank you very much for your presentation. It was extremely informative. We got some good notes with it and we will ponder it.

Mrs. Hushion: Good luck in your deliberations.

Mr. Chairman: Members of the committee who were members of the committee when Mr. Taylor used to sit on the committee will recall the problems he had with going in favour of free trade because of the cement industry in Picton and being concerned about free trade because of the boxboard industry in Napanee.

In favour of free trade, I presume, we have with us Barry Blanshard from St. Marys Cement Ltd. His brief is being distributed to members right now. Mr. Blanshard, welcome to the committee; sit yourself down and make yourself comfortable. We look forward to hearing from you.

Interruption.

Mr. Chairman: It is a false alarm. Carry on, Mr. Blanshard. We are not concerned about the outside world.

ST. MARYS CEMENT LTD.

Mr. Blanshard: I am sorry I am not bringing any stock tips to the committee today. Ours is a private company, so the dividends are not out in the open market. Our competitors are all shareholder companies, so maybe you could take a look at them.

Although I am here alone, I am speaking for the cement industry of Ontario. On the first page of the brief, I list the four operating companies that have plants in Ontario. I will run through them for you. Canada Cement is a subsidiary of Lafarge Coppee of France. St. Marys Cement is privately owned by a couple of old Ontario families who live in Ontario. St. Lawrence Cement is owned by the Holderbank group of Switzerland. Lake Ontario Cement is part of the Denison holdings; they are the majority holders in Lake Ontario.

Those four companies make all the portland cement that is made in Ontario. There is a small plant in Woodstock manufacturing white cement, but it is not affected by this brief. I am speaking and have the authority to speak for the industry in Ontario.

Let me give you a little bit of history and background as to why we are taking this approach.

Three and a half years ago, the US decided to rebuild their Interstate highway sytem and put on a five-cent tax; they are doing a magnificent job of rebuilding their full highway system, much of it in concrete. At that time, in a last-minute amendment, a buy America clause was put in the legislation specifically mentioning steel and cement. Cement seemed to be an add-on; we did not pick it up until it was a fait accompli. We worked very hard and had a lot of friends who helped us get out of that legislation; it took about a year. We were able to operate and sell cement to ready-mix companies and paving companies that would use either American or Canadian cement on their highway projects. However, the legislation is coming up again and the buy America clause is back in. As we all know, there is a little more protectionism showing up in the US.

That is the history of why we are here. We are working very hard to try to get that clause back out. We have quite a lot of friends down there who want Canadian cement. In the Northeast, there have been shortages of cement, which works to our benefit in getting them on our side. We asked that this buy America be removed.

The one thing that is thrown up at us by a lobbying group of American cement companies is, "Fine, we will take that off if you fellows will just let us compete in the free market in Ontario and the rest of Canada." We have officially asked all the provinces, through the Canadian Export Association, to remove any tariff and nontariff barriers for cement. That is the tack we are on. I am here to reinforce our request to Ontario to remove and declare that there are no nontariff barriers on cement in Ontario.

I have given you here a little outline of the Ontario cement industry. It indicates that we are really living off these exports. The second last

paragraph on the first page indicates that the Ontario market used in 1985 about 43.5 per cent of our production. Our exports of 1.7 million tonnes accounted for another 27 per cent. That brings our utilization of capacity to 69 per cent. It will be a disaster if we cannot sell in the US. Although the highway program is not the total user of our cement when it goes to the US, we find that if a ready-mix operator has any kind of work on the highway program, he has only one silo and he will only use what cement can be used on that highway. We lose a lot more business than that which goes to the highways.

That percentage means we are closing our plants approximately three months of the year. In towns such as Picton, Woodstock, St. Marys and Bath down at Kingston, where our plants are located, it is pretty tough on the small communities to have the plant closed for that period. It is a seasonal business and we build up stocks in the winter, but with this percentage of utilization we are unable to do that. We just fill up and we are stuck. We only store so much.

We are asking the province to declare that we do not want any protection whatsoever. The industry was asked in the past on the Burlington Skyway whether it wanted protection. To a one, we said, "No, we are quite willing to compete with the Americans in our home base." The American cement industry is a little further away to haul cement here, so we do have an advantage. We are on the Great Lakes and we can move cement by water. We have all bought and invested in the US in depots to store our cement over there in large silos.

The other point I would like to make is that for many years, because of this underutilization of our capacity, we have been actively asking the Minstry of Transportation and Communications to build more concrete roads. Appendix 2 is a brief that we put in, furthering our cause for concrete roads in Ontario. The rationale we push is that every item used in a concrete road is manufactured with raw materials from Ontario quarries and by Ontario labour. All we bring in is some coal to burn when we make the cement. With the asphalt roads, the asphalt comes from offshore now and came from Alberta in the old days. We have quite a point to make in trying to get more usage in our home market.

We are making two points. (1) We would like very much to have no protection for our cement in our home market and (2) we would like to see Ontario build a higher percentage of concrete roads. It now builds very few. They are good roads. We have all driven on such roads through the United States.

That pretty well sums up what I have to say.

Mr. Chairman: Thank you very much.

Mr. Blanshard: It is brief, but there are just two clear points.

11:30 a.m.

Mr. Chairman: There is a lot of solid stuff there. I always had a mental thought of concrete roads being American, for the very reasons you are suggesting. Mr. Mackenzie and then Mr. Callahan.

Mr. Mackenzie: You currently have a capacity of more than 1.6 tonnes.

Mr. Blanshard: Six million, sir.

Mr. Mackenzie: No, the unused capacity of about 1.6 million or 1.7 million tonnes.

Mr. Blanshard: Yes.

Mr. Mackenzie: If you were producing to capacity, regardless of whether that additional 1.6 million or 1.7 million went into exports or was sold locally through any change of of our own highway construction policy, what would it mean in terms of additional workers?

Mr. Blanshard: We have 1,000 now and 6,000 in ancillary work. It would mean our workers work a full 12 months instead of being laid off for three.

Mr. Mackenzie: But it would not mean a sizeable increase at all in the work force.

Mr. Blanshard: No.

Mr. Mackenzie: I asked that specifically. I can see the argument you make and I can understand it. There is also the possibility of expansion, but the inference was that this was one industry where we could see clearly the offsets, in other words the pluses, in terms of total free trade. I see your argument more as a status quo than a free trade argument.

Mr. Blanshard: I should not say there would not be any more employment. There is bound to be some when you move your plants up in capcity utilization.

Mr. Mackenzie: We are not talking about a huge increase over the 1,000.

Mr. Blanshard: No, there would not be a huge increase. We stand to lose on the 1,000 where we have been. The point is, there would be full employment instead of 75 per cent employment.

Mr. Callahan: As a matter of curiosity, when oil prices skyrocketed--I know in our community we were building concrete roads because they were less expensive than asphalt--did that increase your projects and revenues?

Mr. Blanshard: It started to. Municipalities started building concrete roads because they were closer to their cost. It hit the home owner right down the street because his taxes were right there.

Mr. Callahan: Have the plummeting oil prices turned that around?

Mr. Blanshard: We do not think so. The price of asphalt has come down very slowly, something like the gas pump price; but with the refineries closing and the more modern refineries staying, they are cracking the bottom of the barrel, as they call it, down to the more valuable products, so the supply of asphalt has not become any more plentiful than it was. Now some of it is coming from what we call offshore Quebec or from even further offshore than that.

Mr. Callahan: Speaking of cracking, how does cement stand up in relation to asphalt in our type of winters? This has nothing to do with free trade, but I figure you get as much information as you can at these things.

Mr. Blanshard: It is just first class. The Ministry of Transportation and Communications is willing to give us a 25-year lifespan for a concrete highway versus a 15-year lifespan for an asphalt highway.

Mr. Callahan: No heaving or--

Mr. Blanshard: No, less in fact. You do not need as much. The asphalt is a flexible highway and the concrete is a rigid highway. Just to reinforce the point, several of the states are quite a bit north of us. Up in the Dakotas, there are all concrete highways in an even more severe climate than we have in southern Ontario.

Mr. Callahan: You would put the guy out of business who makes the bump signs, though, would you not?

Mr. Blanshard: I hope so.

Mr. Ferraro: Making the assumption that they are all union shops in the four producing plants--

Mr. Blanshard: Yes, they are.

Mr. Ferraro: --have the locals taken a position on this, or are they going with their opposition as indicated by the leadership.

Mr. Blanshard: We have not really asked them.

Mr. Ferraro: I see. That puts them in a difficult position, I would suspect.

Mr. Blanshard: I do not know.

Mr. Gregory: To go back to the question about concrete as opposed to asphalt roads, in recent times there has been a great deal of protest from people in urban communities about collector roads, highways such as Highways 401 and 403 and this sort of thing, about noise pollution. Can I have your comments on the difference? I understand cars driven on concrete highways produce a great deal more tire noise than they do on the new types of asphalt. Is this true or not?

Mr. Blanshard: No, it is not. There are experimental sections on some concrete highways, such as Highway 401 out in the east end, where we tried different surface treatments. One was done with a plastic broom finish and another with dragging burlap. There are some experimental roads right in the east end. There is one out there that sings like anything, but it was just that.

There is another thing we do in concrete roads. We all remember that Highway 400 had the bump-bump-bump thing on it. The technology has changed. Now we make the joints on a skewed angle so that two tires do not hit it at once. I think I can answer your question by saying we are far quieter now than people realize a concrete highway used to be.

Mr. Gregory: Is this taking into consideration the new type of asphalt? I forget what they call it. It is something like a cushioned asphalt they use for highways now. Perhaps Mr. Mackenzie will be familiar with this. There is a section on Highway 403 where they tried it. It is new and supposedly noiseless. It cuts down the tire noise substantially. Do you have something in concrete? Are you making smoother concrete these days?

Mr. Blanshard: The trick is not to get it too smooth because you need the skid resistance. There is a balance between the two.

Mr. Gregory: In your opinion, they are equally good as far as noise is concerned.

Mr. Blanshard: Very much so.

Mr. D. W. Smith: You say you have about 31 per cent more plant capacity. If we are talking about jobs here, if you were able to increase your operations and more projects were done with cement, how many jobs would you take away from the asphalt industry? It is a comparative thing. I think you stated you would not increase your employment that much. Would you take away a lot of employment from the asphalt industry, or have you ever looked into that?

Mr. Blanshard: I have not. Appendix 2 of our brief is really asking for more funds for the Ministry of Transportation and Communications so it can build more highways. We want more to be our share.

Mr. D. W. Smith: In your opinion, how much more does it cost to lay a mile of concrete road compared to a mile of asphalt?

Mr. Blanshard: I do not have the numbers on that. MTC developed a formula which tries to factor in that extra 10 years because the asphalt road has to be overlayed after the 15-year period. We try to factor in that extra construction at that time. Then it becomes availability of funds on the first-cost basis.

With respect to municipal roads, we have been asking for alternative tenders in cities such as Brampton and Woodstock. Petrolia has just built one. In those cases, we have actually been lower in first cost. In some cases, the difference in those municipal roads has been in the range of a five per cent to 10 per cent premium for the concrete.

Mr. D. W. Smith: I do not know these figures, but I know on Highway 402, which comes from Sarnia to London--

Mr. Callahan: Where is that?

11:40 a.m.

Mr. D. W. Smith: That is in a good riding, Bob. I think the first section of road was built from Sarnia back towards Highway 21. I have heard that the underlay was eight inches of concrete and the overlay was eight inches of asphalt and the next section was 15 inches of asphalt. If we can get money like that in our municipalities, I can hardly imagine it takes that much aggregate to carry trucks day after day. That is 15 or 16 inches of concrete or asphalt. To me, that is throwing a lot of money in the ground for nothing.

Mr. Blanshard: I do know the two sections of highway. I do not think the concrete base had an eight-inch overlay of asphalt.

Mr. D. W. Smith: You do not think it was that deep?

Mr. Blanshard: I do not think the asphalt was that thick on top of the concrete.

Mr. D. W. Smith: I did not see the specs, but that is what I was told.

Mr. Callahan: Politicians are always spreading it thick.

Mr. Morin-Strom: We do not need the interjections, Callahan.

Mr. Blanshard: The other section, with 15 inches of what they call deep-strength asphalt, is about right. With the flexible pavement, you make it much deeper and you put a great deal more granular base under it. There is a lot less granular base under a concrete highway. In counties, such as Lambton county, where there are not any granular materials, the concrete highway shows its economic value very fast because you do not have to put about 15 inches of gravel underneath the concrete. I think that was something like eight inches of concrete with about four or five inches of asphalt on top, but that is about three years ago when Huron Construction built that.

Mr. D. W. Smith: Yes. Perhaps it has some bearing on the land below it, but the section with straight asphalt has not stood up like that first section of highway. You talked about selling road bump signs. It is terrible some winters and they have done everything. They have tried to tile deep down the sides of the road to get the moisture out of there. There may be something wrong with the ground underneath the highway, but asphalt has not stood up like the concrete section. I guess that is a plug for your company.

Mr. Blanshard: We try to promote the benefits of the concrete rather than the detriments of the other product.

Mr. Chairman: Mr. Morin-Strom wants to talk about Highway 17 and Mr. McLean wants to talk about Highway 400. Mr. Cordiano is going to talk about both.

Interjections.

Mr. Ferraro: How much are the stocks this month?

Mr. Callahan: This is supplementary to my two colleagues' comments. Is cement safer with respect to the elimination of the hydroplaning you have on asphalt?

Mr. Blanshard: I do not know the answer to that.

Mr. Callahan: I was going to make one further comment. The reason there are so many layers of asphalt on our roads is that they represent all those elections that were run. Every time an election comes, that is what happens. Your roads are layered with asphalt.

Mr. D. W. Smith: We have never heard it quite that way before.

Mr. Morin-Strom: I am a little bit perplexed about the way this whole discussion has gone and with your whole presentation. Your industry was touted as one of the big winners under a free trade agreement. The vast majority of your presentation and the discussion time have been spent debating whether we should have concrete or asphalt highways in Ontario. Can we get back to the free trade issue? Can you tell us how much, in terms of sales of cement, the Ontario industry lost because of protectionism in the US in the last several years? How much in additional sales will we get if we have free trade on cement in the future?

Mr. Blanshard: The answer is fairly clear-cut. We are protecting the 1.7 million tonnes we are exporting now. Buy America is not law yet. We are lobbying against it. It is just coming back in. We stand to lose a substantial amount of the 1.7 million tonnes or 27 per cent of our capacity.

Mr. Morin-Strom: We have not lost any to date?

Mr. Blanshard: We have not lost it. That is right.

Mr. Morin-Strom: When you say it is just coming back in, when was it in effect before?

Mr. Blanshard: I think that legislation first came in three and a half years ago. We got it out after about a year of lobbying in Washington.

Mr. Morin-Strom: You have the charts in appendix 1. What year was it when we lost substantial sales?

Mr. Blanshard: In 1979, we shipped 2.6 million tonnes to the US. In 1980, 1981 and 1982, we dropped to about one million tonnes. There were two factors there. The economy backed up also.

Mr. Morin-Strom: You do not know specifically what year that was, nor how much was lost and how much we recovered. I guess the lowest was one million, or maybe two million. There appears to be a curve down and up, rather than a one-year event on this.

Mr. Blanshard: I am terribly sorry I cannot answer that specifically. However, if I remember being in Washington about three and a half years ago, I am awfully close.

Mr. Morin-Strom: On the buy America deal, do you feel the main thing that will influence favourable treatment for Canada is that the Ontario and other Canadian governments ensure there is no preferential treatment within the Canadian marketplace?

Mr. Blanshard: We are absolutely sure of that. The American Cement Trade Alliance group that has been formed down there has said that to us. They are the people pushing for protection. They said: "Give us a clear shot. You fellows are not playing fair with us."

Mr. Morin-Strom: The cement business is one industry that could be isolated and a fair trade arrangement can be worked out, regardless of how the overall negotiations of potential free trade may go. As long as we are careful in our treatment of the American industry here, do we have reasonable assurances we will be exempt from the buy America clause?

Mr. Blanshard: We are absolutely sure that if we can do that across Canada and province by province, we will get fair treatment in the states.

Mr. Callahan: That is a very concrete example.

Mr. McLean: Mr. Blanshard, I think you came here with two purposes. The first was to let us know you are interested in free trade. The second was to make sure everybody is aware that you want to sell more cement for highways. It is interesting. I had a couple of your colleagues in my office not long ago. Their purpose was to indicate that they want to sell more cement. I commend you for being sharp and doing that.

Whether we have free trade or not, it is not going to affect what we sell to the states, is it?

Mr. Blanshard: Yes. That 1.7 million tonnes in exports will go down if that buy America clause comes back in, as has been indicated it will. We will sell much less to the states almost immediately.

I will give you an illustration of concrete highways. In Michigan, which has a population something like that of southern Ontario, their usage of cement in their highway program last year was 300,000 tons. That is half the production of our St Marys plant. It is a substantial amount. Wisconsin, with about half the population of Michigan, used 174,000 tons, I believe. It is a substantial percentage of what our plants can make. The highway programs with concrete highways are big users of cement.

Mr. McLean: Have you made a presentation to the Minister of Transportation and Communications?

Mr. Blanshard: Yes, and to Mr. O'Neil. We are trying to cover all the bases we can.

Mr. McLean: There is another thing I heard brought up here this morning. I have been involved in a lot of roadbuilding. It depends on how much cement you put on--four, five or eight inches--what the life of the road is going to be. If you put on eights inches, you are going to get twice the life that you will get from four inches.

Mr. Blanshard: Not quite; you need enough to have the integrity of the depth of the concrete.

Mr. McLean: It is about $100,000 to cement a mile of road. It is fairly costly.

Mr. Cordiano: Looking at the American side, you see buy America. What are some of the impediments the Americans face concerning our market?

Mr. Blanshard: In Ontario, we have a Canadian preference in all buying. The Ministry of Transportation and Communications is the main user and there is a buy Canadian preference.

11:50 a.m.

Mr. Cordiano: It is very similar.

Mr. Blanshard: It would be, yes. I can understand the Americans. It is fairly plain that they should have the same type of clauses that we have. We are asking for them not to be there.

Mr. Cordiano: In your brief, you have imports from the US at 90,000 tons. Is the Ontario government using any of that?

Mr. Blanshard: It has been used on a few projects but it is mostly for private use. It comes in from Buffalo to some of the ready-mix operators in the peninsula. It comes through Port Huron from Alpena, Michigan, to a few ready-mix operators in Lambton county. There is some coming to eastern Ontario from the Hudson Valley. There are some cement plants down there.

Mr. Cordiano: How competitive can you be with the Americans?

Obviously, you are competitive now in their market. Can you shed some light on that? How do you stack up against American firms? What are the advantages?

Mr. Blanshard: The plants in Ontario are first-class plants. The last plant built was the plant in St. Marys. It is a state-of-the-art, modern, energy-efficient plant. It probably is a better plant than anything within 500 or 600 miles of the border. The Lake Ontario Cement plant in Picton has been constantly upgraded. It is efficient. There are dry plants and wet plants; dry plants are the state of the art. The plant in Picton is one of the more modern wet plants, as is our plant in Bowmanville, one of the last of the wet plants to be built. The Canada Cement Lafarge plant in Bath is an extremely efficient plant. It is right on the water--capable of exporting the cement. It was the last big dry plant built. It is a million-tonne plant. It makes one product and one product only. It is very efficient.

Mr. Ferraro: As a supplementary to that, is it our innovation and technology, or is it the value of our currency, that makes us so competitive?

Mr. Blanshard: The currency has not hurt us one bit.

Mr. Ferraro: To what degree would the currency affect how much we could sell to the US?

Mr. Blanshard: In 1979, we exported 2.6 million tonnes and I believe the currency was a percentage point the other other way. I forget when our currency was--

Mr. Cordiano: It was considerably better than it is now.

Mr. Ferraro: When Lassie was a pup our currency was worth more than the US currency.

Mr. Blanshard: In 1979-81, it was not at the huge discount and we exported heavily in those years. We were able to compete with parity and I would think we can still compete. We have efficient plants. Unfortunately, Americans in the northeast did not rebuild their plants. They put all the money down in the Sunbelt.

Mr. Ferraro: I am not sure I understand what you just said. You said 1979. My understanding is that our dollar was still below the US dollar in 1979.

Mr. Blanshard: Yes, but it was not nearly as low as it is now. We exported heavily in 1979, and prior to that we were exporting when there was not such a big discount. We could compete. As I said, the American plants in the northeast are not modern plants. The American cement industry spent all its money down in the Sunbelt. As a result, we are competing with less-efficient plants.

Mr. Cordiano: Referring back to the line of questioning with regard to the number of employees, what possible expansion could there be with additional exports? You are running below capacity now; I understand that.

Mr. Blanshard: Yes.

Mr. Cordiano: You would have to completely--

Mr. Blanshard: Other than our working hard and selling more, we are

doing reasonably well right now with exports. They represent 27 per cent of our capacity at this time.

Mr. Cordiano: You do not see any additional expansion?

Mr. Blanshard: Not beyond the normal growth in the markets and our efforts to try to outsell the Americans on an equal basis, which we think we can do.

Mr. Cordiano: Basically, you are trying to protect what you have now and that could be established by eliminating buy America policies and making sure those do not have an impact on you.

Mr. Blanshard: Yes, sir. That is substantially correct.

Mr. Mackenzie: I will be very brief because I think it is going over what the last couple of questioners got to. There are no unfair subsidies other than the buy America or buy Canadian policies you are talking about. As it stands at present, you can compete with the Americans head to head.

Mr. Blanshard: That is correct. There are no tariffs.

Mr. Mackenzie: The only problems you would have in protecting the local market is what you have had to do up until now; sitting down and trying to work out arrangements with them in this field.

Mr. Blanshard: Yes.

Mr. Mackenzie: I wish Mr. Taylor were here, because your industry was held out as one of the gainers in employment. It has become very clear it will protect the status quo but there is no additional employment to speak of in the cement industry.

Mr. Blanshard: There are two points. One is the increase in usage in Ontario, which could turn up that other three months, but it is felt we stand to lose 700,000 tonnes of that 1.7 million.

Mr. Mackenzie: You have never gone down less than one million and some. That is because there are no unfair subsidies. You can make your case for your cement in the straight competitive market, so that is a situation for individual negotiating.

Mr. Cordiano: If we were to lift, let us say, the Canadian or provincial government's preferential treatment of you--they buy your product now--in effect eliminating any buy Canadian policy, would that have an impact on your ability to sell in our own market?

Mr. Blanshard: No. We can compete with anyone in this market. It is a good industry; it is well built and well financed. We can compete, but we would sure hate to close our plant for another month.

Mr. Mackenzie: You are protecting security of employment. You are closed down for three months now because you have 31 per cent unused capacity. You feel that, without the buy America deal, you may be able to use that additional capacity. Unless you are able to sell more in Ontario, you might ship that cement out. The point is that you have 1,000 directly employed and 6,000 spinoff workers, but you can see no major gain; it is more security of employment there.

Whether they are right or wrong, you can compare it with the small-packaging industry representatives who appeared before us, for example. That is about the time we had this big argument over cement being one of the gainers. They had some 3,000 or 4,000 workers involved, if I remember correctly, and they made it very clear that they stood to lose two of their plants. You can see a direct downside in the packaging industry. We are hearing here that we might have a little more security of employment but no real gain in the cement industry. That is the only point I am making.

Mr. Blanshard: That is why we are specific on the commodity called cement about which we are talking. The implications of free trade are far beyond the cement industry per se, and we are very specific in asking on behalf of cement. That product is all we are concerned with. It is our life blood. We are not trying to promote free trade per se across the board.

Mr. Morin-Strom: You want continued free trade in your industry.

Mr. Blanshard: In this one commodity, which benefits Ontario.

Mr. Mackenzie: You are competitive so they cannot use any phoney subsidy arguments with you.

Mr. Blanshard: That is right. We are clean as a whistle. We maybe should have been at the talks, but we were not.

Mr. Cordiano: In that industry, you would not be giving anything up if you were to remove buy America policies.

Mr. Blanshard: That is right. We have everything to gain in Ontario and nothing to lose, because they can try to compete with us here and we welcome it. We will compete with them.

Mr. Ferraro: I have a quick question. It deals with the second part of your purpose here, and that is to give us a sales pitch for more cement. Is not one of the problems with buying cement the fact that it stains? I am thinking of aesthetics.

Mr. Blanshard: Yes. In your driveway, if you have leaky oil, it will stain, but the same oil will eat a hole in your asphalt.

Mr. Ferraro: However, you cannot notice it as much.

Interjection: Not until you drive over it.

Mr. Blanshard: It is not as visual. I have an asphalt driveway, I am ashamed to say. I have a couple of holes in it from my son's leaky car.

Mr. Ferraro: I suspect there is no way you can change the colour.

Mr. Blanshard: You can.

12 noon

Mr. Ferraro: For example, in Guelph they cemented the road in the square and the buses stop there. It was one holy mess after about six months because of the oil stains.

Mr. Blanshard: You will find that the asphalt would have deriorated in those cases.

Mr. Ferraro: I am talking aesthetics now.

Mr. Blanshard: Yes. The concrete is there because of the weight of that bus when it brakes and stops. There is quite a case for putting a concrete pavement where the buses have to pull up.

Mr. Ferraro: I suspect cement is more in tune with highways and driveways and places where you have wires underneath, too.

Mr. Blanshard: It is a structural thing.

Mr. Chairman: Thank you very much for your presentation. It is obvious that you filled in some areas we had been tussling with and we appreciate your coming and doing that with us. It was a very concrete presentation. Mr. Mackenzie, we will make sure Mr. Taylor gets a copy of the transcript.

Mr. Blanshard: I am sorry I did not know all the highways in the province.

The committee recessed at 12:01 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

TUESDAY, APRIL 15, 1986

Afternoon Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Hennessy, M. (Fort William PC)
Knight, D. S. (Halton-Burlington L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitutions:
Callahan, R. V. (Brampton L) for Mr. Knight
Gregory, M. E. C. (Mississauga East PC) for Mr. McFadden
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes
McLean, A. K. (Simcoe East PC) for Mr. Hennessy

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witness:

Individual Presentation:
Lazar, Dr. F., Associate Professor of Economics, York University

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, April 15, 1986

The committee resumed at 2:06 p.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: I call the meeting to order. We have with us Dr. Lazar, who has now completed his report. It has been distributed to you and he has made himself available this afternoon for discussion of it. Do you wish to make an opening statement, professor?

DR. FRED LAZAR

Dr. Lazar: I do not think I need to make another statement. I am here to deal with any questions that may have risen with regard to the interim report, this report or any other matters.

Mr. Chairman: I will start. You have given us a very interesting survey, starting with looking back to the post-Kennedy-round situation. If I am correct, one of the things we can take from this is that one cannot predict very much on the basis of economic theory. Is that a fair summary, and have we been taken by our economists generally for that reason?

Dr. Lazar: It would be easy for me to say yes, and it is almost tempting.

Mr. Chairman: However, it is not just the boys at Queen's and the University of Western Ontario, but all the economists.

Dr. Lazar: Yes. In defence of economists in general, some theories, not all, give some insights into what might happen. That does not necessarily mean that what happens corresponds with what the theory tells us. There are two primary reasons for this. First, the theory may have a great many shortcomings and not take into account many factors which are quite important, particularly the operations and behaviour of corporations. Second, a number of other variables may be changing simultaneously.

Theory basically says, "If one thing changes, this is what is likely to happen." I emphasize, "likely to happen." However, in the real world, many things happen simultaneously. They may cancel one another out; they may not. It is very difficult to determine what the net effect will be, and more so since there is no good theory of corporate behaviour and what happens during an adjustment period. To give a long answer to your original question, while we are in some type of adjustment period, economic theory has some value and gives some insights into what might happen, but it is not going to be very weighty in giving you good predictions of what will occur.

Mr. Mackenzie: One thing bothers me a bit and has all through these hearings. Why are the witnesses and even the economists so much more able to give us an idea about the adjustments for the downsides than they are--in some cases even with figures, although it is not all coming only from the economists--for the potential upsides? There does not seem to be any problem

at all in identifying industries and sectors of occupations, trades or businesses that are going to be hurt or at least have some serious adjustments. We are having the devil's own time getting anything at all on the upside. If it is difficult in economic theory to tell us one, why is it not as difficult to tell us the other?

Dr. Lazar: I would suspect the reasons behind what you have had here is that the economists who appeared before this committee tended to follow the notion of comparative advantage. They said the industries that are going to do well are the ones in which we have a comparative advantage and the ones that are going to do poorly are the ones in which we are going to have a comparative disadvantage. I suspect that the downside of our problems is occurring in the more labour-intensive industries. Those are the ones that have been cited.

This results in economists suspecting that we do not have a comparative advantage in labour-intensive industries. That is correct. What we are dealing with here is a Canada-United States situation, not a Canada-the world situation. The downside of problems in these industries may not be as severe as the economists have argued. On the other hand, their inability to point out where the so-called "winners" in a freer trade arrangement are likely to occur, demonstrates that the whole notion of comparative advantage is very flawed and weak. By and large, outside the resource sector, you will find that few economists will be able to point out where else Canada has some competitive advantage, vis à vis the US.

It has not been studied. It has been assumed that companies will do something and there will be some benefits. Which companies? Nobody knows but we assume that will happen. Certain industries will benefit. Which ones? We do not know. They will not be the labour-intensive ones; therefore they are likely to be in the other group. Which ones? We do not know because we do not have any theory telling us what underlies a country's or company's competitve advantage. We do not have a solid theory for this. Futhermore, economists have never studied who the winners might be, in the sense of trying to predict before the fact. After the fact, they can point to which companies did well and which did not.

Mr. Mackenzie: If all of our problems are where we do not have a competitive advantage--and they are the labour-intensive industries--that underlines the fear that is out there or the concern that we have because that is where the jobs are, the value-added and labour-intensive.

Dr. Lazar: The discussion has been on the manufacturing sector. In respect to the service sector, there has not been that much work done on what sectors and industries might be affected positively or negatively. The bulk of the jobs happen to be in the service areas rather than in the manufacturing areas.

Mr. D. W. Smith: On page 54 of the presentation, you have said the depreciation of the Canadian dollar may help offset, but if you want to extend this scenario far enough to where our Canadian dollar comes down to a point of, hypothetically, 65 cents, is there any chance that we might be able to compete better on a trade basis? Could the Americans, if they wanted to and if there are no barriers to them, come in any buy our companies with the result that Canada would become the 51st state? If they cannot beat us in free trade they can get us from another angle. I say that because I heard that Americans are coming over and trying to buy private nursing homes because their dollar today is so much different. I live in a border riding so that is perhaps why

we are hearing it down there. Our dollar today is so much different from theirs that they can come in and buy some of our companies or businesses and still have a good thing going. I want to hear some more comments on that.

2:20 p.m.

Dr. Lazar: Obviously, that is one element I did not look at and I think others have not considered. The value of the dollar has to decline in order for us to maintain a competitive position or offset any potential job losses. Those Canadian companies that are profitable, that show good growth prospects, become more attractive to the American companies in the absence of any foreign investment barriers because of their profit potential and, furthermore, because of the low cost. As you said, it only takes 65 cents US to buy one dollar in Canadian assets. That makes it a very low cost way of buying into a growth market or company.

There is always the possibility that American companies may look towards Canadian companies and decide these are good buys and go in to take them over, especially since there are no restrictions and the costs are not that significant. What is critical is not so much the cost but the potential profitability of these companies.

Mr. D. W. Smith: As economists, do you see the dollar coming to that point? Has it ever come into your thinking?

Dr. Lazar: I definitely think that. If we backtrack six years or so to when the dollar was still around the 90 cent level, I was one of the few economists to predict the dollar would probably drop to 70 cents or 75 cents. I predicted it on the basis that Canada does not have a competitive economy in the global community. We are viewed primarily as having a resource-based economy, without many other strengths. What has happened over the past five years has confirmed this.

Economists have looked for various other arguments to explain why the dollar has dropped, but essentially it has been the result of a lack of interest by outside investors in Canada. They do not view us as having many strengths outside of resources, and I see no reason for this perception to change in the future. As a result, I would not be surprised if the dollar, with or without a free trade arrangement, keeps sliding over time, perhaps into the 60 cent level or lower.

Mr. Callahan: Is not a reason as well that the outpouring of dollars is greater than the inpouring of dollars?

Dr. Lazar: What determines the value of the dollar is international investment behaviour and international investment confidence in an economy. The decline in the dollar, essentially since 1976, has been the result primarily of a lack of international investment confidence in the Canadian economy. Remember, many of these investors are Canadians who lack confidence in the Canadian economy.

Part of the decline can be attributed to poor management in Ottawa and bad policy-making, and part to the fact that we simply do not have many competitive strengths outside the resource areas. Consequently, given international investment flows and international confidence, there has been a lack of confidence in the Canadian economy. I see no reason for this to change in the forseeable future. Nothing in the policies coming out of Ottawa leads me to believe there has been a turnaround in the ability of the federal

government to come up with good policies that will change perceptions of outside investors. We have not developed new strengths anywhere in the economy to change perceptions of investors, both in Canada and abroad.

Mr. Callanan: Are you saying the only way we will ever turn that dollar around is by using high interest rates to attract more foreign capital into Canada?

Dr. Lazar: That is temporary. Eventually even international investors will look at the high interest rates and say: "That is masking weakness in the economy, a lack of competitive strength and a lack of leadership. Even if we can get a higher return on short-term investments, we are going to lose it in terms of depreciation." If that were the case--if interest rate spread determines capital flows--you would be expecting all types of investment dollars to be flowing out of Japan and Germany and into the United States, given the large interest rate differentials. That has not happened. We have had the US dollar decline because there has been a change in international perception of the relative strengths of these economies. Interest rate differentials will have an impact, but a short-term impact. Over time they will be viewed as weakness.

Mr. Callahan: You are predicting a 60 cent dollar. One would think free trade would make this better for our exports. It would make them cheaper. The additional cost would make it difficult for imports. I had to go out for a second, but what are you suggesting in terms of free trade? Are you in favour of it or against it?

2:20 p.m.

Dr. Lazar: Essentially, the argument I gave last time was that a free trade arrangement with the US, assuming the federal government does not make concession after concession, which has been my greatest fear all along, will not have any significant positive effect. This week and next week, I think you will see that the Mulroney government's reaction to the threat by the Senate finance committee will give us some insights into how they may negotiate, assuming they negotiate properly.

I do not see a free trade arrangement having any significant positive effect. It will have a minor negative effect in terms of employment but that is not the key problem facing the Canadian economy at this time. Whether we have a free trade arrangement with the US, there are much more serious problems facing our economy, namely changes in the international distribution of investment and production, changes in international corporate relationships, the volatility of various economies and changes in technology. These are much more important and critical problems facing Canada and Ontario than a free trade arrangement, again with the proviso that we negotiate intelligently some type of free trade arrangement.

Mr. Callahan: To go back to the 60-cent dollar, are you saying that is your prediction if we go to free trade or is that your prediction unless we change our whole attitude in this country?

Dr. Lazar: Yes, it is independent of whether we have a free trade arrangement. It has to do more with government policies as well as the attitudes and behaviour of our business people.

Mr. Lane: My concern is the bottom paragraph on page 58. I think you partially answered it in answer to the last question. Are you saying that free

trade, in whatever form, will not be a panacea for all our economic ills and that the more attention we focus on the source of these ills, and the less we pay to free trade discussions, the better off we will be?

Dr. Lazar: Yes.

Mr. Lane: Do you want to press that a wee bit? In other words, should we not be concerned about the free trade discussions and be concerned about other things we can fix that have no relation to it?

Dr. Lazar: With regard to the free trade negotiations, let us assume they are going to proceed. The main concern from the point of view of Ontario should be that the federal government does not simply give up, or make one concession after another, for the sake of getting an agreement. The federal government, with provincial government input, should decide exactly what the bottom line is with regard to concessions: what Canada should or can give up and what it wants in return from the US. It should then let the negotiations proceed. You should ignore them as long as the federal government does not change the negotiating strategy in the middle. There should be some monitoring of the federal government's negotiating position.

Then attention should turn to the attempt to turn around the Canadian economy. What I mean by that is basically trying to foster and further develop the entrepreneurial spirit and capabilities in this province and in this country. There, you have to deal with the financial systems, trying somehow to alter the returns and the incentives to get more money going to startups, small companies, growing companies and playing around with the educational system to try to encourage more people to create new companies or to go to the technology side, trying to assist new companies and individuals by providing them with various type of managerial advice, financial marketing advice through various mechanisms, etc. In other words, try to foster and develop entrepreneurship in this country and try to get the human resources we have.

We have a lot of very intelligent people out there who are quite capable of starting companies that can compete quite successfully internationally. The problems they encounter are many, particularly from the financial side. Many of them seem to be caught up in safe, well-paying jobs. For that reason, they are not willing to give up those jobs to take a chance, especially when they are going to have so much difficulty in terms of attracting the financing and other types of assistance they will require.

Let us turn our attention to this area and let the negotiations proceed again as long as we monitor them to make sure the federal government does not decide, at the last minute, that we are being pressured by the US and does not say, "Let us give in to whatever they ask, so we can get some type of an agreement."

Mr. Lane: Your feeling is that we are paying too much attention to these free trade talks.

Dr. Lazar: It has been made too big an issue. As long as we do not sell out, a free trade agreement is not going to change our basic economic ills or significantly change our competitive position. It can be viewed as having a minor part in our economic strategy. I argue that we should focus on the major parts of that economic strategy and flesh them out.

Mr. Callahan: Let me pick up on your statement that Canadians have to develop greater entrepreneurial risk-taking. A week or so ago, I asked a

witness about the refusal of the federal government, with its massive majority, to deal with the question of how it would make banks compete less vehemently and actively for the investment dollar in terms of interest rates. This recognizes that Canadians tend to put their money in the least risky investments, thereby depleting the amount of money available for equity moneys and in essence making the banks, if not the sole source, one of the largest sources for a risky entrepreneur to seek money. Do you see that as a problem?

Dr. Lazar: Yes. The tax system tends to encourage people to put their savings into low-risk financial instruments, especially into registered retirement savings plans. There is no incentive to take risk. The capital gains exemption that was introduced was an absurd move.

Mr. Callahan: I was going to ask about that.

Dr. Lazar: It does not encourage risk-taking, not the type that is required to promote growth and to create new companies.

Mr. Callahan: As well, being able to use the capital gains benefit outside Canada probably weakens our dollar.

Dr. Lazar: That is right; it is for anything. That was a rather foolish incentive. With regard to the banks, the government has never used the leverage available to it to force the banks to become more aggressive in serving the needs of small-sized and medium-sized Canadian companies. The government could do this by working out deals with foreign banks, saying, "We will allow you to have a larger share of the Canadian market, provided you funnel a larger proportion of your funds to these types of companies and preferably into these types of instruments." The government could also do it with the major Canadian banks, telling them, "We will continue with our policy of restricting access to Canadian markets for foreign-controlled banks, provided you meet the needs of these companies."

Neither this government nor the preceding government has used the leverage available to pressure the banks to move into new types of financing, particularly those that will assist and be beneficial to small-sized and medium-sized companies.

Mr. Callahan: Along with that, I gather you see a total revamping of the taxation system as very necessary if this country is to continue to compete economically.

Dr. Lazar: Yes. I favour a much more simplified system that would get rid of a lot of the so-called tax expenditures and tax incentives that we have built into the system. Essentially, these funnel or divert funds into areas that I do not view as critical and away from entrepreneurial activities.

Mr. Callahan: Professor Lazar, were you called upon to give any advice to the federal government on the last budget or on this budget?

Dr. Lazar: I was not on these budgets, but there were occasions in the past when I was called upon. The advice I offered was basically the advice I have offered here. I assume it was by and large disregarded, although it might have been listened to by some individuals. I did not see it having any significant effect on policy-making.

2:30 p.m.

Mr. Callanan: Can I read into your statements that you are an economic nationalist? Would you like to see Canada have greater control over its destiny?

Dr. Lazar: Most definitely, but I do not see it in the sense that we have to encourage Canadian companies to buy foreign-controlled subsidiaries. If it is a good investment decision, fine, the companies will do it on their own.

Mr. Callanan: We should create new ones.

Dr. Lazar: My concern is that we create new companies. They will find their niches in the marketplace. Let us set up the proper environment in which they will be established and in which they will have a chance to thrive and succeed. Let us concentrate on those entities and in that way create a greater presence in the Canadian economy and the world economy.

Mr. Callanan: To bring it full circle, I gather you are saying that the present attitude of government in shoving money out to these people is not the route to go, and that the tax system and the banking system should be such that they would allow the development of new businesses in an entrepreneurial spirit, rather than waiting for Big Daddy to give money.

Dr. Lazar: Yes. The attitude in the business community now is that it will be critical of Ottawa, but once a problem arises it runs there hat in hand looking for handouts. Once they get them, they return to wherever they came from and continue their criticism of Ottawa. They know the government is always there to bail them out. The classic case is Dome, with the banks supporting Dome until the bitter end, knowing Ottawa would eventually bail them out. In the meantime, a lot of small companies are being starved for cash because Ottawa or a province is not there to bail them out or the tax incentives do not encourage investments in those companies.

Mr. Callanan: I am inclined to agree with you that this is a root cause of some of our problems. Is the approach you are advocating at the heart of the strength of the United States or is it that Americans are and have always been greater risk takers and have reaped the benefits?

Dr. Lazar: They have always been greater risk takers, but that does not mean we could not create the same capabilities. The US strengths stem in part from the willingness of some wealthier families and some institutions such as the smaller, regional, local banks to take chances on someone and on an idea.

Mr. Callanan: Plus not pulling the loans when things get a little shaky.

Dr. Lazar: That is right. Despite its faults, the banking system in the United States tended to be more conducive to profiteering entrepreneurship. The bank had a branch in the city. The manager most likely was also the owner, knew his or her customers and was able to go along with them. With the branch-banking system we have here, there is no incentive for the branch manager to take a risk and make a loan to or take an equity position in some small company. If it goes under, the branch manager is in trouble. If it succeeds, the branch manager does not get much credit. There is a reverse incentive system. Our banking system is conducive to that.

Moreover, the defence budget has fostered a lot of research and

development in parts of the US. Together with a much more active venture capital industry, that has also led to a much greater number of startups and a greater level of entrepreneurial activity.

Mr. Callanan: All the wars they have had are part of the strength of their economy.

Dr. Lazar: In the Canadian case, we had some success for a while in the Ottawa-Kanata region of the government laboratories, Bell and Northern. There was an agglomeration of government and the private sector that encouraged and fostered spinoffs. It has levelled off recently, but co-operation and government money can help develop these whether you want high-tech sectors or other entrepreneurial agglomerations.

Mr. Callanan: I am sorry to monopolize this.

Mr. Chairman: Perhaps I can interject briefly. This is a little off the topic, but you should be aware, Professor Lazar, that five members of the committee today were not here last summer when you presented your brief and therefore they are probing into your psyche a little more than you perhaps expected.

Dr. Lazar: That is fine.

Mr. Callahan: Do you see the approach of Canada to social programs, quite apart from its meritorious purpose, as one of the weakening effects on this country's economy? On the basis of your answer to that, if Mr. Mulroney is following the present Regeanomics attitude towards social policies, are we going in the right direction or could it prove even more disastrous to this country?

Dr. Lazar: The universality of a lot of the social programs had two serious negative effects. It prevented more funds going to those in need and it developed an attitude on the part of many Canadians that government was going to take care of them. It has created what I refer to as a state-dependence effect. We can criticize government but we know it is writing cheques to us and we are getting some money from it. Therefore, why try? There is no incentive. In many ways, it has blunted the desires and attitudes of many people in taking risks. The attitude has been: "Why take the risk? All we are going to do is be penalized. We might as well take the easy way out. If we fail, government will be behind us. Success is not going to be rewarded by the government in any great way. It is going to be penalized." There has been this state-dependence effect.

Mr. Callahan: Reagan seems to be moving in the opposite direction. He seems to be trying to drain money from those people, not just from the people who do not need it but also from those who do need it to get his deficit down and to make the economy operate much more effectively. Do you think that is an approach that we, in our present position, can emulate?

Dr. Lazar: If we were gradually to phase out universality and take part of the gains, the additional revenues that would be freed up, and use them to provide greater benefits to those most in need, I am sure we would still be left with some we could apply towards reducing the deficit. My fear is that universality may gradually be phased out but that whatever revenue savings are generated will not flow to those most in need, that programs will

be cut across the board without trying to improve the lot of those who need the extra money.

Mr. Callanan: That has been the history in the US in the past eight years.

Dr. Lazar: My concern is that it may be replicated here, although perhaps the bureaucrats in Ottawa are more sympathetic to the needs of those at the bottom end of the income ladder than are the bureaucrats in Washington. I do not know.

Mr. Cordiano: In your survey of the American firms, the subsidiaries, you said in your brief that 21 declined to co-operate because of other constraints or whatever. Was that time constraints?

Dr. Lazar: Yes.

Mr. Cordiano: Of the ones you interviewed, what did they see in a free trade pact that would be beneficial for the American side, if that even came up?

2:40 p.m.

Dr. Lazar: Very little, other than perhaps some simplification in planning their operations and in restructuring their organizations. Many of them did not see what type of restructuring they might pursue as a result of a free trade arrangement. They said that if there were going to be any benefit from the American point of view, it would be that the elimination of tariffs would get rid of one factor that might have had some impact on their investment decisions. By and large, they did not see any significant benefit for them, for their companies or for the US economy.

Mr. Cordiano: I believe that to this day we have not ascertained what the Americans are specifically looking for sector by sector. We have a general sense of what they are after in these negotiations but not sector by sector or industry by industry. Some of the other members of the committee may have differing views on that.

Dr. Lazar: You have to separate what the administration might want and what Congress and industry might want. Congress and industry basically want the elimination of various irritants. There are the patent laws in the pharmaceutical industry here; the US wants the elimination of those patent laws, which it is going to get. In the lumber industry, they obviously want increased taxes, some change in the fee system in British Columbia. In the banking industry, they want open access to the Canadian market. In data processing, they want the ability to process data in the US rather than in Canada. In the broadcasting industry, they want the ability to sell more programs to Canadian broadcasters by getting rid of Canadian program requirements.

You can go through various areas and tell what companies on the US side, and Congress will support these companies, basically want: to eliminate this, this and this. There is no general program but there are a lot of minor programs.

The administration by and large wants the free trade negotiations and the agreement to be used as an example for other countries. Their focus is the investment side, to eliminate all types of barriers to investment. With this

would then come the ability for companies in the service areas to operate however they please, wherever they please. Those are the main objectives from the administration's point of view.

Mr. Cordiano: In certain industries, as you have pointed out and as we have heard over the last year, there are various irritants. It is as if the administration were waiting to see over the past six months, what its position would be. The types of studies we were conducting were really not being conducted in the US to determine the impact on their side of the border.

Dr. Lazar: They have done that; they have not released it.

Mr. Cordiano: Maybe they have done it. I have not seen any of that type of material.

Dr. Lazar: When I was in Washington in November doing research for this report, I met with some people from the United States International Trade Commission, the ITC, and they told me that they had just completed a study on the impact on their industries of a bilateral agreement with Canada. They had prepared it for the United States Trade Representative's office. I asked for a copy and they said, "No, we cannot release it."

It was one of about three or four studies they had been commissioned to do. About three or four other groups I talked to in different areas of the US government were also undertaking various studies to try to analyse what the effects of an agreement would be or to try to determine what the US would want in an agreement. There is quite an extensive group of studies undertaken and completed. They have not been released.

Mr. Cordiano: We have no understanding at this point. In addition to your study, there have been various studies that we have commissioned such as the Macdonald Commission, etc. We have quite a bit of information at this point, one way or the other. It seems we have not really found out from the Americans the kind of information that we have made available to the Canadian public to determine whether it would be a good thing for the Americans. We have a general sense that in terms of competitiveness we would be at a disadvantage in various areas and would need to be protected with a lengthy phase-in period as one of the considerations. What I am trying to get at is that we have not had feedback from the Americans. At least I am not aware of it; correct me if I am wrong.

Dr. Lazar: I am not aware of it either. As I say, I know the studies have been done and they have probably been used to develop a negotiating strategy for the United States.

Mr. Cordiano: That is what I find interesting. In this entire debate it certainly could have helped our position and our understanding if we had had released to us some of the serious studies that were done on the effects, even the general mood, in the United States.

Dr. Lazar: From the negotiating point of view, I would not want to release these if I were in the United States. It strengthens my hand in dealing with the Canadians.

Mr. Cordiano: It is a one-way street here as far as I have seen to this point.

Dr. Lazar: That is right.

Mr. Cordiano: We have had a lot of discussion in this country, although one might say that the federal government has kept a lot of its internal studies close at hand, and we have not seen some of those. We have commissioned our own studies and have discussed a lot of the issues in this committee but, generally speaking, we have not had that kind of in-depth study from the American viewpoint.

Dr. Lazar: I suspect that, by and large, those studies will show that a free trade arrangement is not going to have any significant impact on the US economy; it is not going to make much difference one way or the other. If that is the case, you do not want to release them, because Congress will turn to you and say: "If it is not going to have that much impact on us, why bother negotiating? Let us now deal with the irritants and try to reduce the trade surplus that Canada has with the United States."

Mr. Cordiano: That would lend a great deal of credence to the argument that the Americans are looking for this agreement to happen with Canada so they can use it as an example in the next round of General Agreement on Tariffs and Trade negotiations.

Dr. Lazar: From the administration's point of view, that is the main benefit. Congress will probably look at it and say, "Hey, there is a large trade deficit with Canada." A lot of these industry-specific irritants have been brought to Congress's attention, so Congress will say, "If you are going to negotiate, these are the things we want Canada to give up."

Mr. Cordiano: It seems as though the Americans have a list of irritants from over the years and do not really need that many studies, because the impact on their economy will be marginal. Whatever they are able to pick up will be a bonus to many of their industries.

Mr. McLean: They have about a hundred protectionist bills on the order paper now, do they not? We are the cat and they are the elephant.

Mr. Cordiano: This issue is probably the most important issue we face, but to the Americans it is not the most important issue as far as trade is concerned.

Mr. Callahan: It might be after today.

Mr. Cordiano: Yes, it is hitting home now. We are at a disadvantage in the sense that we have had some open discussion and debate about this whole issue.

Dr. Lazar: A good indication of the relative importance is reflected in the US press--New York or Washington papers, or even newspapers in some smaller communities in the United States--after the announcement by the Senate finance committee last week. If you compare the coverage here in Canada, you will see the difference. In a US paper you probably have to dig through to page 15 or 16 to see some small comment on it, whereas here it was front-page news. It was the big story last Friday. That gives an indication of the relative importance.

As I said last time, that is why I have this concern about negotiations. For the Canadian government, it is a big deal; for the United States, it is not important.

Mr. Cordiano: It is important to them, but in a different light. They would have us think that--

Mr. Morin-Strom: Not very.

Mr. Cordiano: Just a minute. It is important in the long term. As far as their trading partners worldwide are concerned, it is important to them. It is all relative. In the large US economy--and I think only 10 per cent of their gross national product is in exports--

Dr. Lazar: It is 20 per cent.

2:50 p.m.

Mr. Cordiano: Is it 20 per cent? No, 10 per cent is in exports worldwide. Ten per cent of the American GNP is in exports, whereas ours is about 30 per cent.

Dr. Lazar: I think it is a little bit more, but it is not much greater than 10 per cent.

Mr. Chairman: I do not know anything directly about American public opinion, Mr. Cordiano, but I saw a television broadcast from one of the networks on Friday night about Senator Packwood's statement. In his voice-over the announcer explained the discussion by saying that free trade was something Canada was extremely anxious to achieve because all the benefits would go to Canada and that there were no known benefits to the United States. He said that as an axiom.

Mr. Cordiano: The Americans have been wise in all this in keeping as low a profile as possible. They come into negotiations in a great position.

Dr. Lazar: By the time negotiations start, we will have made many concessions already. There will not be very many irritants left. My concern is that we have got nothing in return. You can go through them: There have probably been five or six major moves made by the government during the past year to year and a half to appease the Americans. They have not given us even a pat on the back, let alone made some offsetting concession to us.

Mr. Ferraro: They let us sing with them.

Mr. Callahan: That seems to be the single largest thing they have allowed us to do.

Mr. Ferraro: It is the only damn thing they have given us.

Mr. Mackenzie: I am curious about whether you have reflected on why we ended up with this initiative and all the push for it from the feds here when there was not only no push but also no consensus or even understanding among the Canadian people. As was made obvious to us by Kenneth Myers of the Senate foreign relations committee in Washington, there was absolutely no push for comprehensive free trade talks from either the Senate or the Congress. In other words, it seems to be coming from the executive branch at both ends. I continue to wonder or reflect on what the bottom line was in each case.

Dr. Lazar: I cannot argue that I know what the bottom line was in the case of Canada. However, if you look back, the initiatives seemed to gain momentum in about 1983. The economics profession in this country has always been strongly in favour of free trade for some reason.

Mr. Mackenzie: Should we blame it all on the economists?

Dr. Lazar: No. If economists had had their way, we would have had a free trade agreement 20 or 30 years ago. Politics has prevented our moving in this direction.

Somehow External Affairs and Finance caught on to this bandwagon in about 1983. There are two possible reasons. They saw what was happening in the US with Reagan and Reaganomics: the opening up of the market, a shift towards the right in economic policymaking, deregulation and privatization. Free trade fit in to less government intervention and involvement. It made sense as part of this move towards freeing up the market.

Then it seemed to take on a life of its own and became a major initiative, I suspect because there were no other ideas on how to get the economy going in 1983 and 1984. The recovery was under way. It was not doing much in reducing unemployment numbers, and the economy was sluggish, so free trade was sold as the solution to our economic ills: "Free trade improves productivity and therefore will generate dynamic growth in the country."

All of a sudden it became politically popular. When Mulroney came in, the same bureaucrats were in place. They may have changed some words and the dates here and there, but they presented the same briefing material for the ministers. It was easier to convince a Conservative government that this was part of a move towards depending more on the marketplace: "The markets will operate with less government intervention. Here are some economic studies that show there are going to be dramatic benefits."

It was picked up and made the centrepiece primarily by default--at least, that is my impression. There were no other economic policies being put forth to deal with our problem. This was the only one gaining wide support among economists and in certain parts of the business community, and therefore it was being pushed.

Mr. Mackenzie: To shift gears a bit, can we handle the rationalization that may be necessary in our country in terms of competitive factors in the world today and the winners and losers without the kind of planning that some would advocate--whether it is an industrial or an economic strategy--and without knowing exactly where we are going?

Dr. Lazar: The answer to that is no. Then again, this rationalization has been occurring for the past 15 to 20 years and it will continue whether or not we have a free trade arrangement. A large part of it is perhaps being ill-conceived and improperly undertaken, but that is a reflection of the fact that policymakers--some at the federal level, but at the provincial level as well--have not recognized or been willing to admit that there have been these ongoing changes or that there might be a role for government to try to assist in the process.

Mr. Mackenzie: Let us forget free trade. Is one of our problems not that we have been going through the rationalization procedures without having any clear economic direction or strategy in the country?

Dr. Lazar: Yes.

Mr. Cordiano: If we forget an agreement on free trade, we are inevitably going to be heading down that road in an evolutionary way, whether on a multilateral or a multicountry basis. We are going to accomplish some of

the things that inevitably will lead to freeing up trade with other nations. In large measure it will be with the United States. If nothing else, this process begins to point us in a direction.

Dr. Lazar: That can also be used as an excuse for further inaction and for saying, "Let us get an agreement and that is it and we will sit back and see what happens."

Mr. Cordiano: Are you saying that if we get an agreement--which I do not think is likely, but that is my own opinion--the point is that we are going to have to deal with a lot of these trade issues during the coming years.

Dr. Lazar: I am not denying that. What I am saying is that, by and large, trade issues are not going to be that critical. The changing international structure of production and investment is a process that will continue regardless of what happens in bilateral or multilateral discussions, and we have to deal with that reality.

The problem I see is that we get caught up with free trade negotiations and assume or believe that the free trade agreement is going to resolve all our problems. We disregard the fact that we have other fundamental problems in our economic and business structure that have to be addressed regardless of what happens in trade negotiations.

3 p.m.

Mr. Cordiano: We are talking opinions, of course, but I do not think people will look at a free trade agreement and say that all our problems are resolved. I do not think it is feasible at this point.

You have surveyed some firms. If I read correctly what you have been saying in your suggestion, there are a lot of basic economic issues that have to be resolved by a lot of firms. They have not even included free trade as a possible item in the three-year to five-year plans that would take them into the early 1990s. They are looking at some of the basic economic issues on an intra-firm basis.

We can extend that. We had a submission by Carl Beigie with regard to some strategic planning in the economic process, and that is what I think will inevitably happen on an intra-firm basis. We can argue about whether it will happen on a macro level; that is part of the problem we have always faced. I do not think this is going to hamper efforts at restructuring the economy on an intra-firm basis.

Dr. Lazar: No. I am saying that the problem lies with government policies. Either you can try to deal with some of these problems and develop the appropriate policies or you can simply disregard these problems and say that free trade is our sole policy. That, by itself, will not be sufficient.

Mr. Cordiano: That certainly seems to be the position of the federal government, and it has been for the last several years. There is no argument there.

Mr. Morin-Strom: In Mr. Cordiano's introductory remarks he said that movements towards free trade are inevitable.

Mr. Cordiano: No, I did not say that. I said that some of the issues--

Mr. Morin-Strom: You said that freeing up trade around the world scene is inevitable, whether it happens on free trade agreement or--

Mr. Cordiano: Yes.

Mr. Morin-Strom: You seemed to imply that.

Mr. Cordiano: Yes. Multilateral trade will be--

Mr. Morin-Strom: Historically, has that been a very long-term trend, or are there cycles in world trade back and forth between freer trade and protectionism, both with respect to tariffs and, in particular, with respect to nontariff barriers? It appears that in the latest round of GATT negotiations, one of the counterbalances for what appears to be freer trade in terms of tariffs is a reaction of companies that introduce nontariff barriers instead. There might be a contention that a certain amount of protection is demanded by most countries for their own industries, and if they cannot get it in tariffs, they are going to get it in nontariff barriers. Is there a clear long-term trend that would indicate that the inevitable result is much freer trade on the world scene?

Dr. Lazar: No, I do not think you can point to any long-term trend. During the 1930s a whole host of trade barriers went into effect after a period where trade was being gradually liberalized. The reduction in tariffs is really a post-Second-World-War phenomenon. The only thing I can point to is that there has been a reduction in tariffs. In many cases this has been compensated by the creation of new nontariff barriers.

What might change matters over time is the internationalization of companies whereby major corporations have a vested interest in seeing the elimination of more trade impediments. As you get more multinationals developed and more joint ventures arising, you may get internal pressures in many of the developed countries to eliminate trade barriers. On the other hand, you are going to get more and more pressures in the less-developed or the newly industrialized countries to maintain or even establish new trade barriers to give their domestic companies a chance to survive and compete in this new international environment.

Aside from tariffs, there is no clear-cut evidence that you have had a dramatic liberalization of trade. Things may change because of the internationalization of business from the developed countries, but in respect of trade barriers in the less-developed parts of the world, I suspect that for a long time to come you are going to have a whole host of trade impediments.

Mr. Cordiano: Trade in general, though, has historically increased worldwide.

Dr. Lazar: Yes, but one could argue that this is simply a reflection of the fact that you have had trade impediments that force many companies to establish overseas production facilities. As companies have then in turn rationalized their operations and internationalized their production operations, you have ended up with a lot of intra-firm trade. IBM ships from its plant in the United States to its plant in Singapore. That is trade, but it could reflect, in part, trade barriers.

Mr. Chairman: A big problem during the GATT negotiations is going to be the barriers that developing nations feel they need to keep and the demands by the United States and others to tear them down: "You are growing fast enough, you do not need them any more." That is the problem now, is it not?

Dr. Lazar: Yes. The next round of multilateral trade negotiations is really going to focus on nontariff barriers. Tariffs, although some significant ones remain, are not the critical factor any more. Once you get into nontariff barriers, it is hard to measure what the effects are. If you are giving up one concession, it is hard to determine what you are getting in return. For many less-developed countries, those are very important policy tools that the governments are using.

Mr. McLean: Do you think the whole issue of free trade is nothing more than a smokescreen? Do you really think the government is pushing free trade or is it just trying to get our attention away from the economy and other things it should be doing in order to--

Mr. Chairman: You mean the federal government.

Mr. McLean: Yes.

Interjection.

Mr. McLean: Sure, I do not care. It has been going on since 1982-83. When you look at a country such as the US and all the protectionist bills it has, why does it have to negotiate with Canada about free trade? They can get anything they want. The other day somebody said we should start off with maybe five things to discuss, which I agree is a good place to start, but the US is so big, it has the upper hand. What have we got to trade with them?

Dr. Lazar: Let me answer in two parts. I would not call it a smokescreen. I would simply say government bureaucracy really has no other answers. They have ruled out other measures. They see the other possibility, more government intervention, and they argue, probably justifiably, that has not proved to be successful. Given my earlier arguments on the decline of the dollar, there is merit in that argument. Consequently, if government intervention has not worked, let us go the other route. Free trade is part of that package and therefore that is what we promote.

The problem with that is that government intervention has worked in some areas; in others, it has been a failure. What you want to do is try to learn from both the failures and successes to see how to restructure our existing programs to make them more effective and to see what the critical problems are. The bureaucracy, by and large, has ruled out that option. It is either the status quo--the existing set of programs with the existing level of government intervention, which they argue has not worked--or free trade. Therefore, they force the free trade option. We can blame the Conservatives in Ottawa. If we had John Turner and the Liberals there, they would also be engaged today in discussions with the US to try to start negotiations on a free trade agreement.

Mr. McLean: Seventy per cent of our exports go to the US. What have we got to gain by free trade?

Dr. Lazar: You have had Richard Harris here and I believe you have had Ron Wonnacott here. They gave you what we are supposed to gain from free trade. The problem with their argument is that it is just an assumption.

Let us get back to the other comment you made. Why does the US want to get involved in this? They are going to pressure us into making all the concessions they want anyhow. As I say, the administration wants to enter into negotiations as an example to other countries. That is their main benefit. If

there were great benefits to the US economy, these studies that have been undertaken in the US would have been released. The fact that they have not been released suggests to me they do not show any significant impact one way or the other.

Mr. Chairman: Thank you. Are there further questions?

Mr. Mackenzie: It is not really a question; it is more philosophical. Is not the Macdonald commission report very clear? I would be interested in whether you buy the observation that we are at the crossroads in terms of our economy and we either take the leap of faith into comprehensive free trade talks or we are faced with a planned economy, which is government intervention once again, which people are so scared of.

If Macdonald is right in his observation--I found that part of the report particularly fascinating--he has very honestly placed it on the front burner.

3:10 p.m.

Dr. Lazar: Canada has been at the crossroads for quite a while.

Mr. Mackenzie: That is the only thing that might make me wonder about this.

Dr. Lazar: It is not that, all of a sudden, we have come to the crossroads and we have to decide which way to go. I think what we should learn is that many of the policies we have had in place in the past have been ill conceived. They have essentially been sort of ad hoc responses to crises rather than the result of longer-term planning and thinking; saying, "Okay, what are our problems?" and "Let us try to develop the appropriate policies to deal with the problems."

The appropriate policies may not necessarily mean more government intervention or more government policies. They could actually mean less government intervention, fewer policies, and less government spending. It is a matter of having more intelligent programs in place to deal with what is a particularly critical problem; this whole underdevelopment of entrepreneurship in this country. Government planning may not necessarily be the solution. So what Macdonald has done, on the advice of the economists working for him--once I knew who his director of research was and who, in turn, that director of research appointed, I could have predicted what the final report would say--

Mr. Mackenzie: In effect, he said, "Leave it to the marketplace or we are going to be faced with some real economic planning."

Dr. Lazar: Right. So if we leave it to the marketplace--

Mr. Mackenzie: My argument might be different from yours, but that is what we have needed all along. We have not done it very intelligently in this country.

Dr. Lazar: If you leave it to the marketplace, you get what is happening out west with the oil industry, or in the foreign exchange market and you get what is happening in the commodity market; the closest example to the competitive ideal. You get turmoil and dramatic fluctuations.

Mr. Cordiano: Let us not forget we have a mixed economy.

Dr. Lazar: Okay. I just want to return to the point. Macdonald took the traditional economic view, saying that we had a choice: government intervention on as massive a scale as we have had in the past, or more; or freeing the markets. It was either or. What I am suggesting is that there are many options between these two extremes. Those alternatives were never really considered, and one of them will probably be superior to either of the two extremes. It is not a simple crossroads. There is a whole menu of options out there.

Mr. Mackenzie: I do not really disagree with you on that, but I am saying that is the way it was put in pretty clear terms in that section of the report.

Dr. Lazar: That is the easiest way of presenting it if you want to make a strong case for free trade. Many people say now: "What is the option? The status quo? The status quo has not worked, therefore we have to go this other route." That is sort of a false way of presenting the argument.

Mr. McLean: But it has worked out--

Dr. Lazar: It has worked in what sense? Again, I go back to the comments I made at the outset--

Mr. McLean: There is less unemployment in Ontario and Canada than there is in other jurisdictions. The economy is good. I do not think we have done too badly.

Dr. Lazar: It depends on how you want to measure success.

Mr. McLean: I just wanted your reaction, that is all.

Dr. Lazar: Within Canada, we are doing well. Within most of the world economy, we are doing well. The question we have to ask is, "What was our potential?" I am arguing that our potential was much better. Our productivity growth could have been far superior to what it has been over the past 10 or 20 years.

Given the earlier arguments I made with regards to the exchange rate, obviously, if my intrepretation is correct as to why the exchange rate fell, the status quo has not worked. It has led to a significant deterioration of the exchange rate. My interpretation is that it is a reflection of international confidence in the Canadian economy, and what we have is simply a vote of no confidence.

Mr. Chairman: Any other comments or questions?

Dr. Lazar: A nice cheery group here.

Mr. Chairman: Oh, we are.

Dr. Lazar: I did not mean to depress you. The weather may be bad, but--

Mr. Chairman: I am sure I have complimented many presenters on behalf of the committee, and without any rebuttal, but I think this report, in many ways, is the most useful one we have. I compliment you on getting out there in the field and actually doing the slugging and the asking of questions, and comparing it with the results of previous GATT rounds. It is going to be very helpful to us.

We really do not know, of course, where we are going now. We do not know whether or not we are going to be dealing with negotiations with the US. I understand we are going to find that out pretty soon. In any event, you have done a good, professional job and I think I speak for everyone on the committee in complimenting you on it and thanking you.

Dr. Lazar: Thank you very much. I should thank Mr. Arnott and Mr. Traficante for their support and their perseverance throughout this study. If it had not been for them, I would not have had a chance to do it and you would not have had results. I would like to thank them as well.

Mr. Mackenzie: I would like to underline the chairman's comments, too, about the fact that you have actually done the surveys and have been out in the field, face to face with some of the companies, which is a little bit lacking in the figures that have been pulled out of documentation and other studies.

Mr. Chairman: Before the committee adjourns, we have some housekeeping to do. I do not know whether you want it on or off the record.

First, the dealings with the Ministry of Intergovernmental Affairs: I understand they will be here tomorrow afternoon. Mr. Arnott was out of the room when we were discussing it and he understood that the instruction would be that it would be in camera. Now he has sent a message back that it will be on the record. We have not heard back from the Ministry of Intergovernmental Affairs as to any reaction to that. I guess we will presume that they will appear and will be prepared to be on the record. That will be at what time?

Clerk of the Committee: Four o'clock.

Mr. Chairman: Four o'clock tomorrow afternoon. Mr. Allan, of Emerson Electric Canada Ltd., of course, will be in camera prior to that.

Mr. Ferraro: I have asked the deputy minister's executive assistant to get us a report from the legal firm in Washington.

Mr. Chairman: Yes. Were you going to do that?

Mr. Ferraro: I just want to report that I have made the request.

Mr. Chairman: Do you know when you will hear back?

Mr. Ferraro: No. I expect it will be in a week or two.

Mr. Mackenzie: If we do not use all of the time from two to four with Mr. Allan, is there an effort being made to move that up a little? I thought I heard some comment that we might get on a little earlier.

Clerk of the Committee: I will check.

Mr. Chairman: An effort is being made.

The committee adjourned at 3:18 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, APRIL 16, 1986

Morning Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Hennessy, M. (Fort William PC)
Knight, D. S. (Halton-Burlington L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitutions:
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes
McKessock, R. (Grey L) for Mr. Knight

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Canadian Advanced Technology Association:
Gow, G. W., Chairman; President, Gandalf Systems Group
Woodbridge, R. M., President

Individual Presentation:
Carrigan, E.

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, April 16, 1986

The committee met at 10:13 a.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: I see a quorum. This morning we have with us the Canadian Advanced Technology Association; Roy Woodbridge, the president, and Gordon Gow, the chairman. They have a presentation which will shortly be augmented by slides. Please go ahead, gentlemen.

CANADIAN ADVANCED TECHNOLOGY ASSOCIATION

Mr. Gow: First, we appreciate the opportunity to discuss with you today the free-trade issue. As your interim report indicates, including some of the dissenting views within that report, it is a vitally important issue which we as Canadians must all take seriously. It is essential that we think it through carefully and enter into the negotiations on the basis of a clear understanding of what is at stake and what we want out of freer trade. When we do that, it is important to recognize we are shaping the future and not protecting the past.

In this respect there is general agreement that the country will have to rely increasingly on advanced technologies and its industries for future wealth and job creation. Thus, in a sense, it is critical that the negotiations into which we are about to enter reflect the interests and needs of all these sectors. This is becoming more and more a global, as opposed to a North American, issue.

We hope what we have to say this morning will contribute to an improved understanding of the implications of freer trade and help in your efforts to formulate a negotiating position. The views expressed this morning should be regarded as preliminary. We have put in place a program to thoroughly evaluate the implications for all the sectors within our association and it will be several months yet before we will be in a position to speak authoritatively with all the input of all our sector representation.

Before I turn over control of the meeting to Roy Woodbridge, who will do our presentation, let me first outline very briefly some vital statistics on our organization. CATA, the Canadian Advanced Technology Association, started in 1978 with a strictly Canadian-company mandate. Everything had to be owned with at least 51 per cent as Canadian. The shareholders had to be 51 per cent. There were six members at that time. We have now grown to 170 member companies. We represent more than 100,000 employees across the country, of which about 60 per cent come from Ontario. We represent an organization that has more than $2-billion worth of technology sales and we export in the neighbourhood of 70 to 80 per cent of our products.

We represent all facets of technology, not only communications and computers but also the metals, biotechnology, etc. We have associate members which include the major universities, financial institutions and various research centres, including the province's own Ontario Centre for

Microelectronics in Ottawa. The computer-aided design/computer-aided manufacturing and robotics centres in both Cambridge and Peterborough are members of the Canadian Advanced Technology Association.

With that brief overview, I will ask Mr. Woodbridge to proceed and look forward to comments and questions following his presentation.

Mr. Woodbridge: I would like to begin by saying simply that we regard free trade as nothing more or less than an industrial development strategy. To assess the merits of the free trade option, you have to decide whether that is the right strategy to follow. Are there options that might be considered, and are there parameters to the pursuit of free trade? In other words, if you pursue free trade, are there are other initiatives you would have to take that are complementary to that thrust?

In answer to those questions, first, we strongly believe that the free-trade option is the right industrial development strategy to pursue. There are reasons for this. As Mr. Gow said, the best technology industry in Canada is extremely dependent on international markets. The assumption behind the philosophy of free trade is that it will result in an expansion of economic growth and thus of opportunity for our export-oriented, high-technology sectors.

The position of the high-technology community is also premised on the recognition that there is very little out there to prevent us from gaining access to the United States market. I will come back to that later.

There are options. They are primarily protectionist in this industry. Because of its strong export orientation, it is not too supportive of protectionist measures, except in some senses that I will refer to later.

Are there parameters, other things that would have to be done to complement that thrust? The firm answer here is yes, and there is a particular need to recognize the challenges that technological events pose for Canada and to be prepared to meet those challenges. Essentially, that means we need a science and technology diplomacy to complement a free-trade thrust.

In a narrow, industry-specific context there are also several corollaries. We have to be very sensitive to some of the adjustment problems that are going to arise within the sector and also the need to protect our ability to grow Canadian-based technological enterprise.

I would like to address the question of technological advance first, because in very general terms an understanding of the way technology is changing our world is essential to our understanding of the context in which the free-trade discussions have to be placed.

In effect, technological advance is changing international and domestic industry structures; it is changing international markets in every commodity area; and it is changing the basics of international competitive strength.

Free trade will open the Canadian economy more fully to the effects of these changes, and we must be ready for them in order to benefit fully from the expansion of market opportunity implicit in the free-trade option.

10:20 a.m.

There is nothing new in that, other than the fact that we are dealing

now with a speed and pervasiveness of technological change that could be radically different from anything we have known in the past.

I will just touch on some of the major trends about which we, as an industrial association, are concerned.

First, with respect to research and development, the whole concept of scale is important. There is a powerful trend towards the development of a critical mass of effort in particular, selected technology areas. In that process, there is an increasing role being played by national governments, competitor governments, to co-ordinate research on a national basis. They do that at the pre-competitive stage to give their technological industries a downstream market advantage.

That combination of factors is accelerating the face of technological advance. At the same time it is creating financial, geographic and political barriers to gain access to frontier research. It is also creating a greater challenge in terms of Canada's ability to participate in the commercialization of emerging technologies.

The second point we want to emphasize is the change in markets that has been brought about by technology. Technology is shrinking the world, and as the world is shrinking, international competitive advantage is shifting towards companies that are able to produce and market their products on a worldwide basis. If you are look at the way in which technology is having an impact on all our manufacturing and service sectors, you will find that technological sophistication and the use of technology is increasingly the basis of international competitive strength. Technology is the key to enhancing product quality, and through productivity enhancement to cost reduction and so on.

The first point is very critical to this whole process. We simply have to accept the fact that the pace of technological innovation is going to be rapid and sustained. What we also have to recognize is that the time frames for adapting to the use of new technologies are shortening. Essentially that means the nature of the competition Canadian industry faces is changing. It is going to be tougher in the future, particularly in relation to competition from third world countries that are making technological adaptations at a far faster rate than people thought possible several years ago.

All these things are taking place regardless of whether or not we pursue a free-trade option. The country as a whole and this province and the industries within it are going to have to adapt to those realities irrespective of the free-trade option. However, the effects of free trade will be to accelerate those trends. Free trade will benefit the countries that are best able to develop and use leading-edge technologies. In effect, Canada is in an international war for economic survival and, unfortunately, that is a war we are losing at present.

I have listed a number of motors to which you might refer to make judgements about our relative success here. On a per capita basis, we do about half the research and development as our major international competitors, and we train and employ fewer engineers and scientists than our international competitors.

I talked about the importance of scale at the research end with respect to commercialization. Our research activities are small-scale, fragmented and of subcritical size in most areas.

I talked about the accelerated pace of technological adaptation. Studies indicate that the rate of technology diffusion in Canada lags behind other countries.

All these things combined become very visible when you look at the balance of trade in advanced technology products.

I will run through the beginning of this. The top figure is our positive balance of trade. This is the break-even line. This is the positive balance of trade in primary resource products and this, showing a little peak, is the balance of trade in the automotive sector. This is the figure for low technology products such as shoes and textiles and this is intermediate technology products.

This rapidly declining line is our deficit in advanced technology products. That deficit has been growing at the rate of 20 per cent a year since 1970. In 1985, the deficit was in excess of $12.5 billion. That created a tremendous challenge to the survival of the Canadian economy.

Mr. Chairman: What is the time span here?

Mr. Woodbridge: From 1970 to 1985.

Mr. McKessock: What is the top line?

Mr. Woodbridge: That is the trade balance for primary resource products, including energy. When you look at that figure on the energy side, it shows the shock effects of rising energy prices which were taking place at a time when the total volume of energy exports from Canada was increasing. I do not know what the effect of the declining oil price is going to be on that curve.

There are also factors that are unique and temperate in nature to account for this very sharp increase in the automotive sector export performance. The dilemma we face is, what happens if we do not sustain these trend lines and this continues? The ability of the national economy to sustain wealth creation and to create employment opportunity is going to be severely constrained. Even if these curves are perpetuated, there is a very limited ability in the planning resource sectors of the automotive industry to create employment opportunity in the face of the necessary productivity improvements that are going to have to be put in place to sustain competitiveness.

We really have to address this curve. The only way to do it is in the context of developing a strong national commitment to developing technological excellence in all dimensions. We are talking about everything from the training of people to improving the rate of technological sophistication of the companies in Canada that use technology. Also, we are talking about the need to increase the output of technology goods and services in this country.

What does that have to do with free trade? In order to be prepared for the effects of free trade, that thrust has to be accompanied by the implementation of a comprehensive national science and technology strategy. We could talk endlessly about what that comprises; I am just flagging the issue because it is very important.

I will turn to slide 8. I would like to concentrate the remainder of my remarks very narrowly on the advanced technology community's views with respect to free trade and some of the adjustment implications there. If you

run down slide 8, you will see very clearly that the United States market is extremely important to the advanced technology community.

10:30 a.m.

There is a feeling that our trade performance, in a Canada-US context, would be affected by trade policies. There is growing evidence of protectionist sentiment in the US as it applies to trade and advanced technology goods and services. To this point, while there has been evidence of slight irritation, it has not been a significant barrier.

Our companies judge the effects of free trade on company performance to be very strongly positive. This sample was based primarily on small and medium-sized Canadian-owned technology companies.

Mr. Chairman: Are these your own companies?

Mr. Woodbridge: These are our own members. Their best assessment of the effects of free trade on long-term job creation is very strongly positive. With respect to the type of agreement that should be negotiated, the general free trade option was strongly preferred.

The final point, the risks of free trade, is very interesting. More than one quarter of our members feel there are large-scale risks associated with it. That implies there will be adjustment problems faced by a portion of the industry.

On slide 9 you see a lot of blanks. We have put in place a process to identify and assess the areas where different problems might arise and where economic opportunity might be greatest. We have had one workshop and we are going to have a series of workshops over the coming months to fill in this graph. We are trying to identify existing industry structures and trends to look at the effects of free trade on those trends. What does free trade mean with respect to the way those markets are going to evolve? What are the existing barriers, particularly nontariff barriers, to international trade in all these sectors? What would be the effects of a free trade agreement with respect to the elimination of those barriers? What would the elimination of those barriers mean, to the extent that they are removed?

We could talk a lot about these, but let me give you a quick idea. It is clear that free trade is not going to impact heavily on the structure of international military markets. There are all sorts of other factors that determine those markets. If you look at the barriers to trade in the military area, you will find they are primarily related to such things as national security concerns. While there are irritants a number of our member companies would like to see removed, particularly in the US, they are going to be very difficult to eliminate in the context of a free trade agreement.

That is the kind of analysis we are in the process of conducting. We will be able to talk more authoritatively about this after we have had several more sessions with companies across the country. However, we can talk about it if you wush.

We have listed some examples of tariff barriers that apply in the high-tech field. You will notice we have listed the ones in Canada as well as the ones in the US. In effect, this is what you are negotiating on. These are the barriers. These are policy instruments for use in the Canadian context that you are beginning to bring into question in a free trade agreement. These

are the impediments to market access in the US we would like to see removed or addressed.

I emphasize that at present the barriers to access to the US market are more apparent than real. Our companies that export very strongly to the US feel that while these things exist and have a nuisance value, timely and effective marketing initiatives can overcome most of them. When you get to Europe or Japan, the effort required to get around those barriers is more tedious, time-consuming and difficult, but you can still access those markets if you put forth sufficient effort.

Another issue we are very concerned about is the effect of a free trade agreement on the ability of Canada to continue to attract appropriate levels of investment in research and development and commercial production. If you simply take away the border, why would companies continue to invest in Canada? Our tentative best answer is that the basic advantages Canada offers as a focus point for high-tech investment will not be altered in the context of a free trade agreement.

The only one that might be brought into question is the attractiveness of the investment incentives. When you look at the calibre of people, capital availability, the transportation links in Canada, resource sectors, the quality-of-life factors, the basic cost structures of doing business and all those things in Canada versus elsewhere, they will not be changed or diminished in a free trade context.

The risk arises in accentuating a trade already in existence, which is the pull of your major market area. There is a strong attraction to locate production and research capability close to your markets. In the context of international transfer of technology, which we think will accelerate--there may be a tradeoff here--it is possible that free trade action will enhance the pull of those offshore market areas.

We are having difficulty making judgements about that. At this point, the general feeling is that the overall effects would be, at worst, neutral and perhaps marginally positive in terms of our ability to continue to attract acceptable levels of--I am sorry, let me qualify this. We do not now have acceptable levels of R and D investment. We do not think our present ability to attract R and D investment will be diminished by a free trade push.

The other area that might be brought into question is the extent to which governments can exercise leverage over investment decisions. Here we are talking about government procurement policies. There is an interesting tradeoff there. If you put that into a Canada-United States context, and we give up procurement incentives by Canadian governments, provincial and so on, in exchange for improved access to the US government procurement market, which is at least 10 times as large as the domestic Canadian procurement market, where will the balance of benefit be? Our people feel that if we can get that improved access to the larger US market, we will be better off on a net basis.

With respect to leverage over multinational enterprises, the feeling is strong that multinationals that have rationalized their operations and that have already allocated world product mandates to their Canadian operations will be in precisely the same position as totally Canadian-owned companies with respect to the ability of these Canadian operations to continue to grow.

We may run into problems with respect to a multinational enterprise that is not rationalized and that is producing in Canada for only the Canadian

market behind our rapidly declining protectionist barriers. We would lose almost totally the ability to influence multinational corporations that simply warehouse their products into Canada and have no production here.

We are concerned about the extent to which existing investment incentives, primarily tax-based incentives, might be avoided in the context of a free trade agreement with the US. Canada has to become a veritable hothouse for growing technological enterprise and a favourable, attractive investment climate has to be sustained to do that.

10:40 a.m.

I will summarize quickly some of the adjustment problems we anticipate. The areas of adjustment are going to be related primarily to companies that are not now exporting and are producing for only the domestic Canadian market. The feeling is that these companies will be in trouble whether or not we negotiate free trade. This very difficult question of market development is something that is going to plague all Canadian advanced-technology enterprise.

In a free trade context, the ability to access and penetrate international markets will be more critical to corporate success. It is a slow process on an individual company basis when you are dealing with companies that are tiny to small on an international scale. It is very difficult for them to develop their markets effectively. We have not been too successful at that in the past. In the context of a free trade agreement, it is an area in which we are going to have to bring about significant improvement.

As for our general conclusions, of a preliminary nature anyway, generally, Canada's high-tech industry is pro free trade. We think the overall benefits to be derived from a free trade push will exceed the costs. There will be some adjustment problems. We think they are probably quite manageable within our sector. With respect to the longer-term implications, we are not sure at this point what the effect will be on the balance-of-trade graph. We think the effects will be relatively neutral on overall levels of trend lines of investment in research and development and technological innovation.

In the context of the graph I showed you on the balance of trade, for the country as a whole to deal effectively with free trade there is an absolute, binding requirement to enhance our ability to use and develop technology. To do that, we have to give some very concerted thought very quickly to the question of developing a national science and technology policy to give coherence to our efforts.

Finally, to reinforce the point Mr. Gow made at the beginning, we think it is extremely important that in developing negotiating positions on the free trade question, the strategy be oriented strongly to benefiting the industries of the future. We must be careful that hogs and logs and the mindset of protectionist sentiment dealing with the technologies and industries that have up to this time been the mainstay of the Canadian economy do not diminish our ability to put in place a forward-looking strategy that will allow the industries of the future to take root in Canada and grow.

That is all we have to say. We are ready for questions.

Mr. Chairman: That was a very thoughtful presentation.

Mr. Morin-Strom: First, I agree with the need to develop a framework of a national science and technology policy that will lead us to be more

competitive in the future. Second, I can understand why the member companies and groups of your industry are pro free trade, given the international trade in technological products and in the intellectual property of technologies. The companies currently in the high-tech field in Canada have to be dependent to a considerable degree on foreign markets.

However, it seems to me you have built a case against free trade on the national scene, particularly when I look at two of your major arguments.

You say, "Freer trade will benefit countries best able to develop and use leading-edge technologies." You also say, "We are losing the war" in technology. The logical conclusion is that we are the ones who are going to be hurt by free trade. As you pointed out, your graph shows that our comparative advantage, our big surplus in trade, is low tech. It is in resource sector, commodity-type goods. We are losing the battle; we have a tremendous trade disadvantage in high-tech products.

Given that situation, the logical conclusion is that we have to have some kind of industrial strategy to build up technology before we can contemplate going towards freer trade. In fact, slide 4 says the conclusion is that we are going to be the losers in our current state of competitiveness in terms of the total national scene by moving towards free trade. I can see why you support free trade in terms of high-tech industry; in terms of the national scene, I cannot see your supporting free trade.

Mr. Woodbridge: Basically, free trade forces the country to do slightly more quickly the things it is going to have to do in any event.

Mr. Morin-Strom: Why do you want to do that? There is no benefit or real argument to do that now.

Mr. Woodbridge: There is certainly a compelling requirement to get on quickly with this business of getting a national science and technology strategy in place and building that capacity within the country to adapt to technological advance and to re-establish a leadership position. If we do not do that, the country goes down the tubes.

Mr. Morin-Strom: Why do you not advocate that instead of free trade?

Mr. Woodbridge: We are advocating both. When we look at the main goal--

Mr. Morin-Strom: It seems to me we need the one before we can talk about the other.

Mr. Woodbridge: There are two dimensions to this. Look at the slope of the curve and the balance of trade in advanced technology products. Our member companies are saying one method of turning that curve around is to enhance our ability to access more rapidly growing international markets. In that context, free trade is a desirable strategy to pursue. Our companies feel very strongly that their ability to grow will be enhanced in the context of a freer international trading environment.

If you are addressing the top curve and you want to sustain a high level of competitiveness internationally in our resource sectors, there is an absolutely compelling requirement for those industries to become more sophisticated in the use of technology. How you encourage that relative sophistication in use to sustain our competitive position is an interesting

question. I am not sure whether in that area there is a requirement to put in place a science and technology strategy before you negotiate a free trade arrangement. The reality is that all this stuff is happening. We are being dismally affected by it now and we can see a complementary push rather than a sequential one being the way to proceed.

Mr. Gow: I think we did make that statement in slide 7, where in fact it had to be in conjunction. I do not think we can do it. We are saying freer trade must be accompanied by a national commitment to technological ends. We are tying the two together.

On the way up, I was drawing a scenario of what is going on. Our company has worked in the Far East for quite some time now. In Canadian car manufacturing, which we show here as a curve, we are just ecstatic about all the metal-bending work we are getting into Ontario with all these manufacturers. The Japanese in particular have lived in the quota system for the past four to five years and we think we have done a marvellous job.

10:50 a.m.

Yet our company does business in Japan and gets part of the Japanese plan. They are going to be out of the car manufacturing business by the year 1995; totally out of it. They are not going to be involved. They are going to be in the science of technology, in particular in the semi-conductor industry, in which they will control the manufacture and distribution of every car in the world. From 1983 through 1986 there were eight microchips per car. From 1986 to 1988 there will be 32 microchips per car, and from 1988 through 1995 there will be 64 microchips per car. That is to control the braking systems--all the mechanisms.

If I paint the scenario the Japanese have lived with--and believe me, they do think this way--Mr. GM comes up in 1988 and says he wants to produce a million of his new Saturns in Canada, and Mr. Japan says, "I am sorry, but I can produce only the 700,000 microchips you need for that critical component." Who has control of the quota? Who has control of the industrial strategies of all the rest of the world? That is what they are doing. We are going to be on the suffering side of that if we do not tie this-- In looking at the negotiations and the technological excellence, free trade is going to be tied into that field.

Mr. Morin-Strom: I agree completely with them in the science and technology strategy, but the free trade issue is still a question mark. You bring up the case of Japan. Japan has built a huge and very successful high-tech industry at the forefront of the world basically in the context of tremendous protection for its high-tech industries and for its finished products within its own home market. It has been just the opposite of proponents of free trade when it comes to high tech and finished manufactured products. It has been extremely protectionist in the building of those sophisticated industries in its own country.

Mr. Gow: Briefly, when you look at it from the government point of view, it is protectionist. We do more than $1 million a year in Japan. We do not find it protectionist. We find the marketing to be an inhibiting factor, and the hidden tariffs, which we have to get around, which are strictly every--

Mr. Mackenzie: It is a nontariff barrier system.

Mr. Gow: It is a nontariff barrier system, which is encompassing it on the marketing. I could say the same thing about France. It took us almost eight years. We are finally penetrating France. It is the same thing.

Mr. Morin-Strom: The issue we have here is more nontariff with the US than it is tariff. As well, in Japan you are talking about someone who is now fully competitive. We are saying that during the time they were building those high-tech industries, they were tremendously protectionist.

Mr. Gow: If I may go back just once more before Roy jumps in here, I do not think Japan will be the major threat. If you think that, you had better be looking over your shoulder at the Koreans, who are going to take over even against the Japanese.

Mr. Mackenzie: I have a supplementary on that just for one second. The point my colleague raised--and we have had a number of discussions on this recently in the trade union movement as well--was simply that your basic argument was that we needed the free trade, the wide-open approach, to be able to compete in a high-tech situation.

The point Mr. Morin-Strom makes is a valid one. You probably have the most advanced high-tech nation on earth, which has done very well, thank you, and it has done it whether there were nontariff barriers or not--and I can go to industry after industry--and almost totally without any effects on employment and trade unions. They actually, at least in that one case, give the lie to the argument you are making here.

Mr. Woodbridge: May I just make two quick comments on Japan? To begin with, the Japanese have not done it on the basis of protectionism and development of the domestic market exclusively. They have done it on the basis of developing a national commitment to dominance of international markets. That is an important distinction.

Mr. Mackenzie: We have no such national strategy in this province or in this country, which is one of our real problems.

Mr. Woodbridge: We have none; that is true. If you think narrowly about the Canadian advanced technology industry and utilizing the Canadian domestic market as the basis for growing an international competitive capability, there are marginal opportunities for doing that, but the reality is that the industry is now so heavily export dependent because the domestic market simply is not wide enough to support any type of scale of production. It may be that, to some extent, the Japanese were able to utilize their much larger domestic market for that purpose. It may be that in a unitary state like Japan you can get agreement on a strategy like that.

In this disparate, scattered, geographically dispersed country, with its small population base, the ability to grow domestic industry in the advanced technology areas exclusively premised on the Canadian market simply is not a realistic option.

Mr. Mackenzie: Nor is it a realistic option with regard to international competitiveness, and that is an argument fraught with dangers. Almost anything we produce can be produced one hell of a lot more cheaply somewhere else in this shrinking world you talked about. Unless we are smart enough to be able to grab a big chunk of the world market away from Japan, Korea, Germany or some of the other countries, I have real difficulty with the argument that this is the road to go, because we need to be internationally

competitive, the very argument you are also making. We can produce almost any damn thing we want now, but we have not solved the problem of distribution, so that the argument of competitiveness alone is a bit of a fool's argument.

Mr. Woodbridge: I would not go that far.

Mr. D. W. Smith: You are definitely in favour of free trade, even more so than freer trade, I would say, but on page 11 you spoke of the multinational enterprises. I have to admit that this is a lot bigger thinking than I am used to, but can you comment on what I see going on out there?

The multinationals, or the huge companies, are merging and getting bigger and bigger. Is that really any incentive for small companies to try to compete against them? Do you think that is really good for our country--or even for the United States, because the mergers there are about the same? It seems as though all the companies are coming into the hands of only a few. You spoke about investment incentives right after that. How can you tie the two of them together if these mergers are allowed to go on? How do you create incentives for a small company to start up and try to compete with these giants?

Mr. Gow: It is an excellent question. They are getting bigger. When we started our company more than 12 years ago, we thought that if we ever achieved the $100-million revenue level, we would be a big corporation. About November 1985 I tried to pull off a contract with one of the major auto firms in the US, and one of its procurement criteria was that you had to be in excess of $100 million in manufactured goods before it would do business with you. Big is not big enough from our perspective, and certainly we are very small potatoes on the world market; $100 million means nothing in the really competitive market.

Some of the small developing companies are being forced to concentrate on a very niche-oriented market--a real niche to make the big guys come to you and utilize it. It is certainly a lot more strained to start in this market than it was in the early 1970s. It is a concern.

I do not know whether it comes into the freer trade aspect of things, but the US is competing with us in every Far Eastern country we are dealing with now. I might add that among the Canadian companies, where we were typically 25 per cent domestic market, 50 per cent to 60 per cent US market and the remaining 20 per cent to 25 per cent European and other markets, we see the domestic market maintaining itself at the 25 per cent level, the US dropping to somewhere in the neighbourhood of 35 per cent and the Far East and European markets going to about 45 per cent of our market.

We see ourselves drifting and marketing into the old world countries, if you want to call them that, splitting about 50 per cent between European and Far Eastern countries. It is an extremely costly adventure for somebody starting up, not only the development of his product but also the extremely high cost of marketing. One marketing trip to the Far East is going to cost me somewhere in the $15,000-to-$20,000 range.

11 a.m.

Mr. D. W. Smith: From a layman's point of view, as I see these mergers take place, it is said that the company becomes more efficient, but it lays off people because it then takes only one administration to look after those two merged companies. Governments may have to start to intervene. I do

not know whether you think this, but I wonder whether this is what it may end up being. I wanted to hear some of your comments.

Mr. Woodbridge made a comment that we had to quit thinking about hogs and logs. In that statement are you saying that things will definitely change in the future for our red meats, for example? When you refer to hogs, I guess you mean the red meat industry, and "logs" means the lumber industry. Will they definitely change greatly in the very near future? Is that the way you were seeing it when you made that comment?

Mr. Woodbridge: I did not mean to suggest that we diminish the concern for those industrial sectors. They are pretty substantial. The resource-based industries in this country contribute enormously to our standard of living. What I was concerned with was that the mindset that would be brought to bear on the question of free trade might be unduly dictated by protectionist sentiment associated with some of our established industries instead of looking down the road to the future to try to create a positive framework that would allow technological enterprise to grow.

One of the ways we might try to develop that critical mass of research capability and production expertise on a national basis might simply be by trying to link--finally, after 100 years of existence as an independent, autonomous nation--the development of manufacturing capability and leading-edge technology in the current context to meeting the needs of the resource sectors. That might be part of a science and technology thrust in this country. We would not be able to pull it off yet, but it might offer one area where we have a unique international advantage. My concern there was strictly with respect to the mindset that would be brought to bear on the question of whether free trade was a desirable strategy.

Mr. D. W. Smith: The chart you held up is from 1970 to 1985. Where do you see that chart line going on the resource sector, say, within the next five years? Do you have any gut feelings about where you think it may go?

Mr. Woodbridge: I should mention that before I joined the Canadian Advanced Technology Association I was director of research for the Mining Association of Canada. Therefore, I can talk with some conviction about at least a portion of these lines.

If I talk just about the mining sector, the resource base in Canada has not yet been fully exploited. It will take a significant number of technological innovations to expand and grow that industry, though, and to retain its international competitiveness. There is a historical downward slope in basic commodity prices. The requirement to enhance productivity to meet lower costs in order to be able to meet those international prices means that even if you have growth within that sector, the employment base will not grow.

My gut feeling about forest products is that there is very limited scope for further growth. People argue that we could double agricultural production in this country. I am very sceptical. We have had some very significant technological innovations and advances. The fishing industry seems to have peaked in 1972 or 1974 and will probably never recover to those previous levels.

The energy industry, which is primarily responsible for that slope, will be battered in the next couple of years by the international oil bubble and depressed prices. We may have significant potential to expand electrical exports to the US, which would help sustain that growth. In the long term we

simply have to accept that there are very significant natural limitations to our ability as a nation to expand output, generate wealth and create employment opportunity within the resource sectors. As our population grows, we will be in deep trouble if we do not do something about this curve to sustain our standard of living.

If you look at the automotive sector, the same sort of dismal scenario can be painted. One of the figures Mr. Gow failed to mention concerning the microprocessors in cars is that when you get 30 microprocessors in the car, you have an $1,800 component in the finished price of your automobile, which will come from offshore even if we manufacture those cars.

Mr. D. W. Smith: You mean one little wee component amounts to $1,800?

Mr. Gow: No. It will come to 64 microchips in 1995. It is proposed that it will be about $1,800 in value added to the base cost of the car on the microchips there.

Mr. Woodbridge: What accounts for this dip? To a large extent it is related to energy and the types of cars we produce. The larger automobiles have become popular again, so that we are able to export those to the US, and there has been a significant level of investment negotiated in Canada. The people I have talked to in the Department of Regional Industrial Expansion in Ottawa who deal with this sector feel that we have probably peaked and that it will level off for a while.

If you look at the historical line, this is a blip and the chances of sustaining it are not very strong. It is possible to be very gloomy when you look at a chart such as that. There are an awful lot of challenges and problems when we try to take this bottom curve, the high-tech curve, and turn it around. If there are natural, rigid limitations on these other areas, what option do we have?

Mr. D. W. Smith: You referred to the oil bubble when you were talking about energy. Do you feel that it has burst and we are in for a down-trend period now?

Mr. Woodbridge: With $10-a-barrel oil they are probably bottoming out. This is not my area.

On the manufacturing side, our manufacturing industries have generally done fairly well during the past few years, but that is largely attributable to the devaluation of the Canadian dollar. If there were an upward revaluation of the Canadian dollar, I am not sure what the effect would be. That has also impacted very significantly on the resource sectors in terms of their international competitiveness. World factors are involved here.

Mr. Gow: Before we leave that sector, though, if we take the three principal ones we have been dealing with--the forest industry, the car industry and the steel companies--I have a real problem with the forest industry. We have lived off this for a substantial number of years and we do not even have a Canadian-made power saw to work within that. It all comes from offshore. We have lived on that. We have not taken the opportunity expressly to develop a technology to serve that.

We have one company now in our own industry association that has developed a scanner for scanning the logs to optimize the cuttings--that is, to increase the yield. They can sell it to Brazil and to the US, but nobody in Canada is-- We just sit here. We feel it is going to lose.

It is the same thing with the car industry. How many hours of design do we put into the car industry in Canada? We are the only western nation that does not put in any design. We do not do one hour in the whole year on car design, but we are still the biggest car producers.

It is the same thing with steel. The steel industry has not protected itself. It has gone about lobbying to make sure that aluminum cans do not take over from steel cans. However, we have not done any research in ceramics, as all the other countries have, to compete in the world. The ceramic engine is here today. It is going to take away from the steel markets.

We have ourselves to blame for much of this problem. We now have to get on with it, but it may be too late. We are talking only two years now. We used to be talking 10 and 12 years.

11:10 a.m.

Mr. Chairman: I have five more committee members who wish to ask questions. I ask that they be very brief.

Mr. Lane: Thank you, gentlemen, for an excellent presentation. It is refreshing to find people as positive about the future of their industry as you seem to be.

You said the projections you made are going to happen whether or not there are free trade discussions. If there is a free trade agreement, how much will it speed up the process?

Mr. Woodbridge: It is very difficult to judge. The process almost has a mind of its own in terms of the pace and direction of technological innovation and advance. It is a moot point whether you can have any control over that. My personal view, and I will see what Mr. Gow says about this, is that the wildest course is simply to look at what is happening in the world and to make a basic decision to ride along with it and try to take advantage of it or to resist it. It is almost an act of faith.

Look at the attitudes of the management in these small and medium-sized companies--in Canadian terms anyway--in the high-tech area. When they say, "We are in favour of free trade," they are saying, "Bring on the international competition because we can meet it in terms of technological competence and in terms of our ability to produce products that are world-competitive in our chosen market niches." As you suggest, they are making a very optimistic, positive statement.

If that is the mindset of the high-tech industry in Canada, and if you have no control over the fact that the country is potentially going to be ravaged by technological advance in any event, why not try to enjoy the process? Get on with it, get out there and try to re-establish a leadership position in it, rather than resisting, fighting, backtracking and retarding the adjustment process that is going to happen whether we like it or not.

Mr. McKessock: As I am a farmer, my concern was the same as that of the member for Lambton (Mr. D. W. Smith) when you mentioned not to let hogs and logs interfere with freer trade. We feel free trade offers something we are not looking forward to. You say a lot of the curve there is the energy curve, but it is probably also the export of our--

Mr. Woodbridge: Wheat is an important contributor to that curve.

Mr. McKessock: We in the agricultural field have a fairly good export trade now. We are not sure how freer trade will improve that. Our exports to the United States are pretty good and in our favour. We know that if the US ever decides to produce this product itself, it could feed Ontario after supper. I am not sure how we have trade of this quality with the US, except maybe our product is a little better. If the border were completely open, some of us feel we would be washed away with free trade, the US ability to produce in a greater land mass and so forth. Can you enlighten me about why it would not be disadvantageous to the agricultural community and dispel my fears?

Mr. Woodbridge: I am not sure that I can allay your fears. The difference is that for all intents and purposes, the border in technology is pretty open right now. There are very few impediments to accessing the Canadian market. As I say, they use these irritants in terms of accessing the US market, but you can get around those.

The barriers in the agricultural sector are much stronger and I do not know what the effect of removing them would be. In fact, if you have a positive balance of trade with all the barriers that now exist, unless there are barriers to entry into the Canadian market that are absolutely essential and critical to your ability to survive, why would you not be able to sustain the present balance of trade if it meant improved access to a broader market for the products that you already successfully export? I do not know; I am sorry.

Mr. McKessock: I do not know either. They have an advantage over us as far as the costs are concerned. They can produce more cheaply than we can. Along with this, their subsidization of farmers has been much more extensive than ours. Of course, this throws another monkey wrench into free trade. If everybody would do away with their subsidization, we could compete. At this point, we find it hard to compete with the other countries, the US included, when they subsidize their farmers to a magnificent extent. Last year it was $20 billion in the US and it looks as if it will be the same this year. I do not know what happens in free trade. Does this subsidization still take place?

Mr. Woodbridge: That is the issue in the log end of this scenario that I was painting. That is what holds the Americans up at present; their concern for what they perceive as Canadian provincial government subsidization of the forest industry in this country, which gives Canadian export an unfair advantage in the US market. In point of fact, there may be an opportunity to join forces here with the forest industry and get the agricultural community screaming and yelling about the unfair protectionist attitudes in the US. I am not sure. I had not really thought about it earlier--

Mr. McKessock: The Americans are very good at camouflaging their subsidies. In Canada, we have a direct subsidy on the product. That is where we make the mistake. We should give subsidies in areas where it is not noticeable, such as reduced interest rates and so forth, as they do in the US by paying them for not growing grain. If you put a direct subsidy directly on the product, it is very visible. That is where they hit us, but in fact, their subsidies are far higher than ours are for farmers. It is a game of how you apply it.

Mr. Woodbridge: It really is. It is those things that are up for grabs in the context of the negotiating chips in the free trade arrangement. As Mr. Gow suggested at the beginning, we have to be very clear about what it is we are after. What are the barriers and constraints to trade that you want

removed and what are you prepared to give up in terms of your barriers and constraints to deal those things? I do not know what the tradeoff should be in the agricultural area.

Mr. McKessock: When we negotiate for the General Agreement on Tariffs and Trade, our agricultural community is often the loser because we trade it off for something else. In this round, we are afraid that it will be traded off again, maybe for high tech.

Mr. Woodbridge: If the Americans are protectionist in the world of agriculture, the Europeans are a quantum leap beyond that. You have tough negotiating on the whole, I agree.

Mr. Ferraro: I have two quick questions and one not so quick. How many members are in your association?

Mr. Gow: We have 170.

Mr. Ferraro: Are they all Canadian owned?

Mr. Gow: In excess of 51 per cent.

Mr. Ferraro: Roughly 49 per cent are foreign owned.

Mr. Gow: No. The membership criterion had to be at least 51 per cent resident in Canada. Most of them are all Canadian controlled.

Mr. Woodbridge: That criterion is past tense. We have changed the criterion, but the membership has not yet changed.

11:20 a.m.

Mr. Ferraro: But you do not have any foreign-owned members in your organization. Is that right?

Mr. Gow: That is right.

Mr. Ferraro: What about foreign-controlled members?

Mr. Woodbridge: At present we have opened up membership--

Mr. Ferraro: --and you will have.

Mr. Woodbridge: Yes, we will have.

Mr. Gow: With the distinct criterion that they do research and development in Canada on the basis of their Canadian sales.

Mr. Ferraro: In graph 8, am I oversimplifying or interpreting correctly the figures beside the heading, Evidence of US Protectionism, that 91 per cent--I presume nine per cent are undecided--of the companies in your poll either experienced some evidence of US protectionism or none?

Mr. Woodbridge: The figure is 37 per cent.

Mr. Ferraro: I am adding the two. Is it correct that 91 per cent of the companies that responded experienced some US protectionism or none?

Mr. Woodbridge: They have seen evidence of it, yes.

Mr. Ferraro: What exactly does "seen evidence" mean? Are they affected by it or not?

Mr. Woodbridge: Of the respondents, 37 per cent have been marginally affected by protectionist sentiment in the US. That can take a whole host of forms, some of which are listed in graph 10. The Buy America Act is one. The small business and minority set-asides are interesting. In order to do business with US and state governments, they set aside a certain portion of their business for--

Mr. Ferraro: The point I am trying to get at, and I may be misleading you a bit, is that 91 per cent of the respondents have either seen evidence of US protectionism or they have not.

Mr. Woodbridge: That is right.

Mr. Ferraro: That leads to my question, and this is where I may be getting a little greyer. The next line down in graph 8 states that the positive effect of freer trade on the company is only 76 per cent. Why is that not 91 per cent? Is it right to say 15 per cent of the people think US protectionism is beneficial?

Mr. Woodbridge: It is a different question. I do not think you can link the two.

Mr. Ferraro: Why not?

Mr. Woodbridge: When you assess the effects of freer trade from a company perspective, you do it on a whole range of bases. Historically, every time there has been an international agreement that frees up trade, it has been followed by an expansion of international market opportunity.

As a company executive you could be thinking: "Free trade is going to expand market opportunity. It is going to give me a bigger market to shoot at. I am going to see whether I can go after it, so I am in favour." It is going to be positive. When you make that decision, it has nothing to do with the removal or existence of specific little protectionist measures in this market or that one.

Mr. Ferraro: Why would the removal of protectionist measures be a negative thing if you are a company president?

Mr. Woodbridge: It is not clear that it would be.

Mr. Ferraro: You are saying it is not clear that it would not be, either. Is that right?

Mr. Woodbridge: If it gives you improved market access, it would be positive.

Mr. Ferraro: Right. Now tell me where it would be negative.

Mr. Woodbridge: If you are producing in Canada for the domestic market and your ability to survive in the domestic market is conditional upon the existence of some kind of protectionist measure that gives you preferred market space, then you might be hesitant to have that constraint removed.

Mr. Ferraro: We are talking about US protectionist measures here.

Mr. Woodbridge: I cannot think of any situations in which the removal of a protectionist measure in the US would be negative.

Mr. Ferraro: That brings me back to my question. Why the hell is that positive figure not 91 per cent?

Mr. Woodbridge: It is because there are some companies--

Mr. Ferraro: --that do not know what the hell they are doing.

Mr. Woodbridge: No, they may not be exporting. They are not in the export market, but are producing essentially for the domestic market.

Mr. Ferraro: I am not sure I understand the graph or the answer, but I will let it go for the sake of brevity.

Mr. McFadden: One of the things I find interesting about your industry is that you follow the model of what everybody says Canada should be. The members of your association are Canadian owned, in the main. You are research and development oriented, you are export oriented and you are expanding.

Mr. Woodbridge: And we are entrepreneurs.

Mr. McFadden: And you are entrepreneurs.

Mr. Gow: And we are crazy on top of it. We are going in the wrong direction.

Mr. McFadden: Given that you fit the criteria that most people want to see the Canadian economy go towards, you are recommending that we go to freer trade. You believe that is important to you in terms of your long-term prospects. It is not only for your company but also, as I understand it, you are giving it a national imperative in terms of what Canada has to do.

You mentioned the future. One question I would like to explore with you is, if we had no freer trade arrangement with the US, if everything either stayed the same or involved more protectionist legislation, where in your view would the Canadian industry and, more particularly, the members of your association be left in the long run?

Mr. Woodbridge: More protectionist measures brought in by whom?

Mr. McFadden: Let us try the US.

Mr. Woodbridge: If the protectionist measures were targeted on the high-tech sectors by putting a shield on their technology industries, protecting the security of their technology development and putting limits on international technology transfer out of the US, we would be severely and adversely affected.

Mr. Gow: If it were a steel door. We have found that technology really crosses all borders, regardless of the development. If you have a unique technology, then you have markets to the whole world. That is one of the things we have found in both the Far East and the United States.

They eventually come back and hit you with it after they have developed your technology, after you have been foolish enough to transfer your technology as a generosity to trade and international development. That is why I believe, for instance, that the Koreans will come back and knock the pants off Northern Telecom and everybody else. Northern Telecom has been very generous in giving its licensed technology to the Koreans to develop a competitive switch. They will be back with it, and I predict they will be back before 1995. Northern will be in very big trouble, along with the rest of them.

Northern has to come back with a very strongly developed, conscious plan for keeping that technology going so that it keeps ahead. That is a pretty fast track on which to run. Pretty close to 20 per cent of our sales has to go back into R and D to keep us ahead of the Japanese in a very small market. I should not say the Japanese, because we really take the whole Far East as the target. That includes Singapore, China, Korea and Australia, along with Japan.

Mr. McFadden: With regard to the importance of exports to your industry and the members of your association, am I correct in assuming from what you have said and from your written submission that the whole future of your industry will depend upon your effectiveness not only in servicing the domestic market but also in dealing with the world market? Is that correct? Is it fair to say that?

Mr. Woodbridge: I can say we will be dependent on our ability to access and perform effectively in international markets.

Mr. McFadden: You would rate the international markets as being more important. You need a start in Canada, but for the industry to survive you have to have access to international markets.

Mr. Woodbridge: There is no question.

Mr. Gow: We could not do $100 million in sales in the domestic market. That market is not here. That market is running roughly $20 million to $25 million and that is all. We have about 70 per cent of the marketplace and we are not going to get much more. We have only 24 million people to work with.

Mr. Woodbridge: To market technology, the sourcing and development of technology is international. The financing of high technology is international. That is the nature of the beast.

11:30 a.m.

Mr. Gow: To help you look at what we are having to deal with, our product life cycle is seven to nine months. We have to bring out two new products per year to keep ahead of the marketplace. I am a farmer as well and I would rather have my beef growing a little slower than seven months.

Mr. McFadden: We do not develop new strains of beef every half year.

Mr. Gow: It is getting there.

Mr. McFadden: How important to you is the US market as opposed to the rest of the international market? To some extent, we have been focusing on and preoccupied with the American relationship. You have been one of the few witnesses who has really been pushing the world market. How important is the American market? Is the American market likely to be of declining importance or of increasing importance? Outside the US, is the rest of the world going to be of increasing importance?

Mr. Woodbridge: If you have had a succession of people coming before this committee talking about the American market exclusively that, to me, is simply indicative of hordes and lords mentality I am so concerned about.

India has a middle-class, consuming population of 100 million people. These are people who take holidays, buy cars and have television sets. They are surrounded by almost 700 million people who live in poverty but there are still 100 million people who are part of what we would define as the consumer society. It does not matter in which industry--agriculture, forestry or anything--if you think narrowly in terms of the US market, you are missing out on phenomenal opportunity.

We have a fixation with respect to protection of existing markets. For example, one of the great debates in the mining industry that has been going on for a number of years is about the US market. Seventy per cent of all the exports of mineral commodities go to the US market. That is right and that market is not growing. There is no growth opportunity in that market for our primary resource products. They cannot eat any more food than they are already eating. Good lord, they are already up to 16-ounce steaks for dinner. There is a limit.

Mr. Gow: It will be the whole cow next.

Mr. Woodbridge: The market opportunity is the world. It is very obvious on the high-tech side. I would have hoped it was obvious to every single person who made a presentation before you.

Mr. McKessock: The world is not big enough for the food surplus either.

Mr. Woodbridge: That is right.

Mr. McFadden: Many of the people before us have said they export to the US, and we have asked them, "What other world markets do you have?" They have said, "None." This includes the steel industry and the car industry. You could go through the list.

Mr. Gow: I have a real problem with the steel industry because I think they are probably the best lobbyists going and they have not protected themselves. In my mind, they should have been out developing many factors of the technologies that the far eastern companies, particularly, have adopted.

Typically, in North America but especially in Canada, the steel industry takes 22 years to adopt a new technology that has been introduced in other world markets. We do not deserve a steel industry.

They should have been in the ceramic business. They should have been in the development the Germans are doing. The Germans are coming back. They have fantastic technology with a zero population growth. They do not have the benefits we have and they have adapted and changed their whole way of life, retrained their workers and developed a fantastic biotechnology industry which is going to be a controlling sector of their economy.

We have not done anything. We have sat back. To make it short, we do not believe the North American market, Canada and the US, is the market we all have to play in. Yes, you have to participate in it but if you are going to look at it in a global sense, our competition is the world. Our competition is the Far East; our competition is Europe; our competition is the US. You have

to play in that game and there is no point in comparing what our technology is doing in Canada and what it is doing in the US. You had better compare yourself with the world because we are getting shot out of the cannon.

Pardon me for going on, but I just came back from Korea in November, where I was watching the Koreans develop a microwave oven that controls the whole house. It is a flat screen which shows you television. It gives you a 105-channel converter. It gives you a videotext feed so you can put in your menus in colour. It has three sensing cameras to go around the house for security, whether you want to watch the baby or put it out so when a person rings the doorbell you see them in living colour and see what they are wearing so you can go up and change if you happen to have the same thing on or if you want to impress them. That thing is going to enter the US market through J. C. Penney at less than $1,000.

Mr. McFadden: When?

Mr. Gow: It is coming in the Christmas issue. They are building about 50,000 a month right now to come in this Christmas holiday season.

Mr. McFadden: What do you do with the guy at the door while you are changing your clothes?

Mr. Gow: Play him music or something. It is all there. Everybody talks about Japanese television. They do not produce a single television tube any more; very few, some very small ones. It is all in Korea. There are 100,000 black and whites coming out of the Samsung electronic plants every week; not colours, colours are on top of that.

Mr. McFadden: It is sort of sad that today we have spent our whole time worrying about what we might be able to protect here, that might even be declining as it is, without really grabbing the opportunities for tremendous growth that we might have elsewhere. I thought your presentation really highlighted some of the exciting things we could be involved in, if we only reached out.

Mr. Gow: I was looking at what we were discussing on labour. The labour content in our product is less than six per cent. Consistently, we have had about 350 manufacturing workers in Nepean. We have increased our production but we have not increased our actual physical manpower because we have continued to put in automatic testing but we have protected those. At this point, for instance, we do not have to go offshore and this is where I think the other industries should be going. If you are going to save 10 per cent on the labour content of your product, it is going from $3 down to $2.70, it is not worth one flight over to the Far East to develop it. A lot of Canadian manufacturing companies, in particular the auto parts industry, have not adapted to the diffusion of this technology to protect themselves. They are going to be run off the map because these other guys are doing it. You see it as you travel the world. It is there.

Mr. Woodbridge: The same thing is going to happen to our farmers unless our farming community increasingly regard themselves as technology leaders. I have always regarded the performance of our agricultural sector with awe and admiration with regard to the rate at which productivity gains within that sector have been sustained over time and it is simply a matter of keeping that up. The way to do that is to enhance the skill content of the labour force. We already have more scientists, biologists and others, on a per capita basis, than almost any other sector in the country. You just have to keep going in that direction.

Mr. McKessock: That is right but keeping up with that high technology has kept some of them broke. The end product is not paying them.

Mr. Chairman: First, our witnesses are not here as experts on the agricultural sector, so bear that in mind. Second, I am watching the clock and because this is a rather fascinating discussion and very crucial to what we are doing, if the committee agrees, we will take Mr. Carrigan's presentation through to one o'clock if necessary. Is that all right?

Mr. Ferraro: The only problem is that two of us have another meeting at 12 o'clock.

Mr. Chairman: Fine. Let us move as fast as we can.

Mr. Barlow: I realize small business is important in this community and this province.

Mr. Chairman: Mr. Barlow was not invited to the small business meeting.

11:40 a.m.

Mr. Barlow: I do not know why but I will help you along anyway.

There are several questions I would like to ask but we are pressed for time. This is very fascinating and something we should be looking at as our mandate goes on and we will have to see what channels we will be operating in. We have had many people here both supporting and opposing free trade with the US and basically that is what we are talking about in these meetings. Some industries, such as the furniture, textile and shoe manufacturers, are opposed to it. Industries such as that see a job loss. The cultural industry is very concerned. I know that high-tech is not going to affect culture. You are not going to be able to put a microchip in front of a TV screen to perform for the viewing audience.

For some of these industries, such as furniture manufacturers, that are really concerned and really fear job loss in advancing their high-tech approach, would not technological advances help them compete in the overall market?

Mr. Woodbridge: What options do they have? Portions of the Canadian textile industry, on the basis of more sophisticated use of technology, are now straight-up, internationally competitive. They are doing very well, thank you. There are all sorts of ways of cutting costs within a company and improving efficiency through management, incentives and so on. You reach a certain point when you have nothing other than technological advance in order to bring about productivity gain. In many areas there is nothing other than technology right from the start. It may well be that even with the most sophisticated application of state-of-the-art technology, that there are other factors that make it very difficult. It may be design; it may be marketing. Certainly our experience in the small- and medium-sized high-technology field is that market development problems are at least as severe or difficult in terms of international performance as technology risk. You can have the best technology in the world but, if you cannot market it effectively and develop your markets, who cares. Nobody will ever know; you disappear.

It is a very complex area but certainly technology has a role to play in rejuvenating, or if you like protecting, at least a portion of the employment base in those sectors.

Mr. Gow: One of the problems we have--and I do not know how to put this--is that we as Canadians are not adventurous enough. In talking about this industry, I take out $8 million a year roughly from the apparel industry. I have three or four Canadian companies, Weston, Kaufman Boot, and Hanna in Montreal. They account for almost nothing. They are very afraid of technology. I do not understand why. You can take them down to see the Blue Bell plant and to see Russell, which is a big manufacturer of all the sports equipment, using the technology for controlling the manufacturing facilities and helping the workers, the sewers and everybody else and making them competitive. The return on investment of the products is running around 90 days--three months on your investment. You can take them down to see the vice-president of manufacturing who is controlling 15 and 20 plants in the US, in the Carolinas, who will demonstrate to them exactly the financial story. You cannot get the Canadians--I do not know whether it is because it is family-owned protected money and they do not want to invest any more. They want to take it all out in legal fees or shareholders' dividends or whatever--to invest in their future. I do not know what that is. I wish I had that answer.

Mr. Barlow: I would like to follow up on that; I think we are short of time.

Mr. Cordiano: Could I have a small supplementary?

Mr. Barlow: I would like to follow up on it.

Mr. Cordiano: Give me the time.

Mr. Barlow: We were here on time.

Mr. Chairman: Just a minute. Mr. Barlow has a supplementary. Are you finished?

Mr. Barlow: Yes.

Mr. Mackenzie: There are a number of questions I would like to ask but I will limit it to one. I was rather fascinated by your comments that we have been losing the war in terms of research and development. My question evolves around the kind of a branch plant economy we have. About three things stick in my mind. One of them is the committee we had on plant shutdowns in this Legislature two or three years ago where I was appalled, as I think members of the committee were generally, at the number of branch plants not doing research and development. I agree with you and that is one of the reasons why we are behind the eight ball. In some cases, we are not even allowed to export.

We have built up a part of that where we do develop. I remember vividly the Outboard Marine plant in Peterborough. There was an engine problem throughout the industry. The Canadians came up with the answer to it. Within a matter of months, almost weeks, the operation was switched to Milwaukee. The whole thing was then lost once there was a successful development to the problem it had with the engines. So even where it had done some internal research and development, we immediately lost the business.

Last night I had the opportunity to sit down for about an hour and a half with staff and executive board members of the International Ladies Garment Workers in Toronto. I was dealing with the cloak makers group, basically. They told me some of the smaller operators, that are the more highly technically advanced, are the first plants they expect to lose in the event of an open border.

The point I am making is not that I do not have some real sympathy, philosophically, with the arguments you are making. I think it may be successful in your industry. I really do not think it is taking into account some of the realities of the people we are dealing with in an industry that is there.

One of the real problems is we do not have a hell of a lot of control over the branch plant setup in this country that has been responsible, to some extent, for not doing the research and development. I do not know what grounds there are, with a totally open border, to think that we are either going to achieve the R and D or even keep those plants. Until we can come up with some answers on those more practical things, in terms of the people involved, I am not in disagreement philosophically with what you are saying but I am not sure we are operating in the real world.

Mr. Gow: I guess I can only add that I think it may be too late to try to exercise that control on the branch plant mentality at this time. We probably had that 10 years ago but I do not think we have it any more.

Mr. Woodbridge: If you wonder why we have such a low percentage of research expenditures as a percentage of the gross national product, the structure of the Canadian economy also has to be taken into account.

Our resource base has allowed us to become fat and complacent. Gord was talking about 20 per cent of total revenues in his company being allocated to R and D in order to develop those two new products a year.

That is typical right across the board in the high-tech community. The mining industry devotes less than one per cent of gross revenues to total R and D, plus market research and development activity. That is typical of the resource sectors. If you look at the proportion of the economy that is dominated by the resource sectors relative to the high-tech sectors, and you average it all out, yes, you are going to have a low national average.

Mr. Mackenzie: I was almost going to interject when you mentioned the mining machinery deal because it has been almost a crusade of two of my colleagues, Mr. Martel and Mr. Laughren, in terms of what we should be doing in development, whether it is mining machinery or something that might be indigenous to this country.

We have not been able to do that or move anybody on it for 10 or 15 years. That is our problem.

Mr. Woodbridge: I would urge you to keep on with that crusade and have the other political parties join with you because I think the time is right for that kind of crusade to finally be successful.

Mr. Chairman: Thank you very much. I understand that we will be receiving a formal written brief as well. I hope it will include that chart you showed us.

Mr.Woodbridge: Yes, it will.

Mr. Chairman: Obviously, you have piqued a lot of interest from all committee members.

Mr. Woodbridge: We would be happy, as well, to return if you feel it is useful; or we could send you some other member companies if you want to get

a broader perspective. We will be happy to co-operate with you in any way.

Mr. Chairman: Thank you for raising that.

Mr. Gow: If we can be of any service to the association then give us a shout and we will be glad to help.

Mr. Chairman: Thank you. I do not know whether you in turn as well have read our--

Mr. Gow: Is that the--

Mr. Chairman: No, this is a report that was done for us by A. R. A. Consultants about high-tech.

Mr. Gow: No, I have not seen it.

Mr. Chairman: I can get you a copy of that as well but it confirms a lot of what you said.

Mr. Mackenzie: That was a real shot in the arm for an industrial strategy. I am not sure what the connection was with free trade.

Mr. Gow: Thanks for your time.

11:50 a.m.

Mr. Chairman: Thank you. Mr. Carrigan, you have been very patiently waiting there. I appreciate your being here with us. We now have in front of us your brief. I would appreciate it if you would make yourself comfortable and lead us through it.

EDWARD CARRIGAN

Mr. Carrigan: My name is Ed Carrigan. I live in Toronto's west end and I am a freelance journalist.

Canadians are being asked to plunge into an act of national renunciation, a Canada-US free trade pact which would submerge Canada into its larger, neighbouring nation. In my eyes, there are at least 22 reasons for Canada to avoid this snare which constitutes local membership in a Canada-US trade covenant. These reasons comprise:

1. Canada's existing trade policy in respect of the US has been a brilliant success, generating a Canadian trade surplus with that nation in 1985 of US$22.2 billion, which is much more in Canadian terms. This trade strategy is worthy of attention. Canada must observe the adages, "If it works, do not change it," and "If it is not broken, do not fix it."

Canada's trade relations with the US constitute the one element of our economy which is working well. This nation's trade balances refute the thesis that Canada lacks access to the US market and a further thesis that its economic destiny is exclusively dependent upon favourable relations with the US. In fact, this nation is able to sustain major trade surpluses with the US and still enjoy economic distress, which kills the theory that its economic destiny is dependent upon its trading relations with that nation.

2. In any trade negotiations the US government would press Canada to

make painful concessions to slash its trade surpluses with the US which were US$20.39 billion in 1984 and $22.2 billion in 1985. The US government would press Canada to renounce efforts to reduce foreign indebtedness, foreign ownership and all efforts to build strong manufacturing industries. Its objective would be to ensure that Canada is, in effect, an economic dependency of the US. The objective of the US government is to wring trade concessions from Canada to slash its trade deficits.

3. It is impossible for a nation to sign a free trade pact with a nation 10 times its size without renouncing its political independence. The member nations of the European Community established their common market in 1957 as a specific prelude to political unification. The US government, in its free trade proposals, is proposing to impose what I consider to be a protectorate over Canada under which Canadian economic policies are subject to controls at the hands of the US government for the advancement of US interests.

4. We must be sceptical about the numerous assertions that the US Congress is on the verge of passing 300 pieces of protectionist legislation. These claims appear to be a campaign to stampede Canada into endorsing Canada-US free trade. The London Economist, in its edition of September 28, 1985, stated:

"More than 300 trade measures have been mooted for Congress this session. Around 200 are little more than press releases, some of them actually promoting imports; about 100 are bona fide protectionist bills...Of the 300 or so trade measures that are talked about, only one, a bill to cut textile imports by up to 40 per cent, is believed on Capitol Hill to be sure of passing both the House of Representatives and the Senate soon."

This was the one piece of protectionist legislation that was passed and President Reagan vetoed it so, in effect, no protectionist measurements were passed. The Economist continued: "Mr. Reagan has said he would veto any such legislation"--which he has done--"and Mr. Malcolm Baldridge, the commerce secretary, now thinks the administration would have enough support in the Senate to sustain a veto."

By the way, I am condensing my presentation so I will not take up too much of your time, so it might be hard to follow.

The logical Canadian response to protectionist moves emanating from the US is to evoke the option provided for under the General Agreement on Tariffs and Trade of instituting compensatory import controls on US exports to offset those US moves. Such a strategy would have a powerful deterrent effect, as well as furnishing the national economy with counteracting effects towards a protectionist measure.

5. The argument that Canada needs US free trade to keep access to the US market ignores both the fact that the average import duty on manufactured goods will soon be four per cent and the devaluation of the Canadian dollar by 30 cents since November 1976. The decline in the valuation of the Canadian dollar has obliterated US import duties on manufactured products by more than six times.

If Canada wishes to enhance its access to the US market, the Canadian government must discontinue its policy of maintaining the valuation of the Canadian dollar at its current artificially high level. A devaluation of the Canadian dollar to 60 cents US would eliminate US import duties on manufactured goods by a further three times.

6. The US domestic market for other nations' exports is small in relation to the world's economy. The US only absorbs 17 per cent of world exports. Canada's exports to the US alone are worth $70 billion a year, whereas the domestic Canadian gross national product is worth $474 billion, or will be this year, and deserves the major share of our policy attention.

7. That 60 per cent of Canada's manufacturing industries are under foreign ownership renders unworkable any Canada-US free trade pact. The mournful fact is that US-owned manufacturing firms in Canada were established to serve a separate Canadian market.

Under Canada-US free trade, US manufacturing firms would very often close their Canadian operations in large numbers and transfer production to the US. The fact that US manufacturing plants are operating at only 80.7 per cent of their capacity in the whole market provides US firms with a powerful incentive to shift production from Canada to their US plants.

8. Many of the proponents of Canada-US free trade have also called for the dismantling of Canada's embryonic social programs. In fact, some of us see that as a major objective of the advocates. The advocates of economic annexation would demand that Canada's social programs, such as health insurance and minimum wage regulations, be trimmed to bring them into harmony with significantly lower US standards.

Pressures would grow to harmonize Canadian standards and US standards, meaning that Canadian levels of public expenditure and activity could be cut to US levels. We have reason to believe that one of the prime purposes of exponents of Canada submerging itself in a Canada-US free trade covenant is to diminish this nation's social service network.

9. Canada-US free trade would bring Canada under pressure to boost arms expenditures from two per cent of its GNP to the US level of seven per cent of GNP. If Canada were to boost arms expenditure to seven per cent of its GNP, it would need to raise it by $22 billion. Shunning Canada-US free trade is saving Canadians $2,000 a year for every Canadian worker. This is an immense boon to Canadian living standards, which should be defended.

10. I have seven data sheets which I include with this. Canada, under economic annexation, could no longer sustain higher rates of economic and population growth than are sustained by neighbouring US states. Canada, as an independent entity, has sustained higher rates of economic and population growth than neighbouring US states. It has been insulated from a huge shift of economic power and population from northern states to southern states.

In the overlapping 40-year periods, 1940-80 and 1941-81, the population of Manitoba rose by 302,000, or 41 per cent, from 729,000 to 1,031,000; while that of neighbouring North Dakota rose by 12,000, or two per cent, from 641,000 to 653,000. In this period Manitoba's population rose 20 times as fast as that of North Dakota.

Ontario's experience duplicates that of Manitoba. Between 1941 and 1981 the population of Ontario rose by 4,837,000, or by 128 per cent, from 3,787,000 to 8,624,000. Between 1940 and 1980, the population in West Virginia rose by only 49,000, or by two per cent, from 1,901,000 to 1,950,000. Between 1940 and 1980 the population of Pennsylvania rose by only 1,964,000, or 19.8 per cent, from 9,900,000 to 11,864,000 and that of New York state rose by 4,079,000, or by 30.2 per cent, from 13,479,000 to 17,558,000.

In this 40-year period, the population of five neighbouring US states rose by 13,989,000, or by 37.3 per cent, from 37,443,000 to 51,432,000. If the population of Ontario in the overlapping period had risen by only 37.7 per cent, it would have been only 5,188,000 in 1981 rather than 8,624,000, or about three million less.

12 noon

A study of Canadian and US metropolitan areas during 1970-80 and 1971-81 confirms Ontario's higher growth rates. Between 1971 and 1981, the population of Toronto rose by 396,000, or 16 per cent, from 1,602,000 to 2,998,000. Ottawa rose by 74,000, or 12 per cent, from 619,000 to 693,000. Between 1970 and 1980, the population of metropolitan Detroit declined by 66,000, or 1.5 per cent, from 4,544,000 to 4,488,000. The population of metropolitan Buffalo declined by 98,000, or by eight per cent, from 1,113,000 to 1,015,000. The population of metropolitan Cleveland declined by 165,000, or by eight per cent, from 2,064,000 to 1,899,000.

Ontario has been insulated from a huge shift in wealth and population between northern tier states and the Sunbelt states occurring in the US. Between 1940 and 1980, the population of Florida rose by 7,843,000, or by 400 per cent, from 1,897,000 to 9,740,000, while that of California rose by 15,788,000, or 200 per cent. Canada must not become the caboose on the express freight train driving the US centre of industrial and population gravity from the northern tier states to the Sunbelt states.

11. Canada, as an independent economic and political entity, has sustained higher rates of industrial expansion than the US in the past four decades. Between 1948 and 1981, Canadian steel production rose from 2 per cent of US production to 13.3 per cent. Canadian steel output in this 33-year period rose by 600 per cent from 2,090,000 tons to 14,670,000 tons, while US steel output rose by only 35 per cent from 89,400,000 tons.

Between 1970 and 1978, the number of people with jobs in Canada rose by 23 per cent, while the number of employed persons in the US rose by 15 per cent. In the same period, national personal disposable income in Canada rose by 51.9 per cent while that of the US rose by only 24.9 per cent.

12. I have two data sheets, 9 and 10, accompanying this. US primacy in world industrial production is rapidly declining and Canada must not be tied down to a weakening US. In 1950, the US produced 76 per cent of the world's cars and trucks, 8.5 million units out of 10,557,000 units. By 1980, US motor vehicle output represented only 21 per cent of world output. The US produced 8.9 million while world output was 38,360,548 units.

In 1948, US steel production of 80.4 million tons was 51 per cent of world output of 155 million tons. By 1981, US production of 108.8 million tons accounted for only 15.7 per cent of world production of 693 million tons. In the same period, Soviet steel output rose from 18.6 million tons to 149 million tons while Japanese output rose from 1.71 million tons to 101.7 million tons.

The US share of world petroleum output has been dropping. In 1927, US petroleum output of 901 million barrels represented 71 per cent of world output. By 1943, US petroleum output of 1,503,000,000 barrels represented 60 per cent of world output of 2,248,000,000 barrels. In 1983, however, US petroleum output of 8,656,000 barrels of petroleum represented more than 16 per cent of world output.

13. Canada-US free trade would rob Canada of its potential for developing capital goods and engineering industries. In 1984, Canada's imports of machinery were worth $23.654 billion against exports of only $9.4 billion, leaving it with a deficit in this category of more than $14 billion.

Nations like Sweden and Switzerland have trade surpluses in machinery. In 1983, Japan exported machinery worth $128 billion and imported machinery with only $13 billion, leaving it with a trade surplus in this category of $115 billion. In 1983, machinery exports represented 68 per cent of Japan's total exports of $190 billion.

For Canada to develop a strong machinery industry, a Canadian market must be secured against imports. Canada must avoid free trade with the US in order to avoid suffocating the development of its machinery industry at birth.

14. Canada-US free trade would lock Canadian fiscal, monetary and foreign exchange rate policies into their US counterparts, in spite of Canadian conditions diverging from US conditions. This integration of policies would deprive this nation of any capacity to attain rapid rates of economic growth. By maintaining independent interest rates, exchange rates and fiscal policies, Canada will be able to achieve economic takeoff. Canada-U.S. free trade would integrate Canadian economic policies with the US counterparts.

15. In time to come, the US will become, or is very likely to become, involved in war in Central and South America which will be much more bloody than its participation in the Vietnamese war of 1965 to 1975. Vietnam has only 60 million people whereas Central and South America have 340 million people. The Vietnamese people have little history of anti-American feeling whereas the people of Central and South American have entertained anti-American feelings for 140 years, ever since the Mexican-American war of 1846-1848. Canada must repeat its experience of 1965 when it rejected the US request to send military forces to help with the fighting in Vietnam.

16. Under Canada-US free trade, the Canadian government would be under strong pressure to participate in such US weapons systems as Star Wars and other space militarization schemes. If Canada hesitates to endorse U.S. space militarization policies during trade negotiations or during the operation of any future Canadian-US free trade compact, the US government would threaten to impose economic penalties in order to induce co-operation. Canada must hold itself aloof from Canada-US free trade in order to preserve for itself full freedom of action in respect to whether it wishes to participate in US weapons sytems such as Star Wars.

17. The major driving force behind the idea of Canada-US free trade consists of the fallacious assumption that Canada's economic destiny lies in the continued exportation of resources in exchange for the manufactured products of other nations. This thesis, based on 19th-century concepts of the international division of labour and comparative advantage, concentrates investment upon capital-intensive resource industries in preference to the development of manufacturing industries.

This strategy ignores world market conditions for resource exports, such as the saturation of world demand for resource products and commodities, surplus productive capacity and depressed prices. This stragegy also ignores the divergent employment records of the extractive and manufacturing industries. In 1981, the manufacturing industries of Canada employed 1,885,000 Canadians, while the mining and forestry industries employed fewer than 300,000.

18. It is curious that the principle of the free market place should be invoked in respect of our vital economic relations with the US at an historic time when this ideal is being repudiated in so many other sectors of the national economy and social structure. Canadians are reconciled to and insist upon extensive government financing and control in the fields of education, health care, the care of the young and the aged and transportation. The government of Ontario is renouncing the free market principle in housing rentals, environmental protection and the ending of extra billing in the provision of health care.

19. Continued control over manufactured imports by the Canadian government is necessary as a means of sustaining rapid economic growth without encountering trade deficits of crippling size, as a means of maintaining a balance in foreign financial transactions and as a means of developing strong manufacturing industries.

Successful Canadian secondary industries, such as steel and automotive, have been built by strict import management and their future welfare is dependent upon continued import control. Import control over manufactured products has been successful in the instances of all the strong industrial nations, notably in the cases of Germany and the US in the 19th century, spectacularly in Japan in the past three decades and, in the past 10 years, in North Korea and Taiwan.

20. I have two attached sheets, 11 and 12.

Political entities that have placed themselves in a free trade relationship with larger neighbouring powers do not fare well in such relationships. In 1900, the US government granted free trade to the island of Puerto Rico, which it had seized in the Spanish-American War of 1898. For 86 years, Puerto Rico has enjoyed free trade with the US.

In 1983, Puerto Rico's unemployment rate of 23.4 per cent was more than twice as high as Canada's unemployment rate of 11.2 per cent. In 1981, Puerto Rico's gross domestic product of US$5,055 was less than one half as high as Canada's per capita gross domestic product of US$10,864. Puerto Rico's labour force between 1940 and 1983 rose by barely 50 per cent from 602,000 to 942,000 whereas Canada's labour force rose by more than 200 per cent from 4,183,00 to 12,584,000.

<u>12:10 p.m.</u>

The reason for the divergence in labour force growth rates between Canada and Puerto Rico is clear. A large share of Puerto Rico's young people have been fleeing to the US mainland in pursuit of jobs and economic opportunity. More than 1.5 million Puerto Ricans live on the US mainland while barely 3 million live in Puerto Rico. If Canadians had been migrating to the US at the same rate, there would now be more than eight million of them living in the US and only 17 million of them living in Canada.

In 1800, the government of Britain bestowed free trade with itself upon Ireland under the union instituted in that year. Ireland did not even have to ask for this boon. At that time there were eight million people living in Britain, exclusive of Ireland, and 4.5 million people living in Ireland. Now, there are 54 million people living in Britain, exclusive of Ireland, and only five million people living in Ireland. In 186 years, Ireland has not benefited from free trade with the nation that accounted for more than half of world industrial production throughout much of the 19th century.

21. Canadian import duties on many categories of manufactured products are between two and four times as high as those of the US and any compact between the two nations providing for their removal would be several times as advantageous to the US as to Canada. Typically, the Canadian import duty on assembled new cars and trucks is 11 per cent whereas the US rate of duty is two per cent. The Canadian rate of import duty on metal products is 12.7 per cent whereas the US rate on the same products is five per cent.

The Canadian import duty on petrochemical products is 11 per cent and the US duty on the same products is 7.6 per cent; on wood furniture, the Canadian duty is 16.3 per cent and the US duty is 3.1 per cent; on shoes, the Canadian duty is 23 per cent and the US duty is 8.5 per cent; on plastics, the Canadian duty is 13.5 per cent and US duty is four per cent.

The effectiveness of Canadian import duties for many years was undermined by the overvaluation of the national currency and the weak nontariff import controls which accompany them. These factors have, understandably, made the Canadian government hesitant over the past three decades to slash rates of import duty on manufactured goods at the same rate as the US government has been doing. The divergent Canadian and US rates of import duties on manufactured products require that Canadian governments proceed with great caution in the cutting of such import duties.

22. The national debate about free trade could, regrettably, divert national attention away from real solutions to Canada's economic crisis. Canada must focus its collective attention on alternative economic strategies. These alternative economic strategies, in my eyes at least, would consist of:

(a) The establishment by the Canadian government, through its agency the Bank of Canada of an interest rate policy which reflects the balance between its rapid rate of capital formation and the static rate of capital expenditures which will entail divorcing Canadian interest rates from those prevailing in the US. This more practical approach will allow Canadian interest rates to sink to natural levels, including a prime lending rate which is at the long-term historic level of one or two percentage points above the level of inflation. This would be five or six per cent at such a time as the present, when the inflation rate is four per cent.

(b) The establishment by Canada of a realistic and natural formal valuation of the Canadian dollar which has not been artificially propped up through continuous expansion of the nation's foreign indebtedness. The current overvaluation of Canadian currency, in effect, subsidizes imports and inhibits Canada's exports. Under natural conditions, the valuation of the Canadian dollar would be at approximately the level of 60 cents US and would give Canadian industries reasonable access to markets of third nations, secure the domestic market against devastating penetration by imports and assist in balancing its international accounts.

(c) The introduction by Canada of a program of rolling back this nation's foreign indebtedness which reached $244 billion two years ago and cut the foreign ownership of the nation's industrial structure to a maximum of five per cent from its estimated current 26 per cent.

(d) The establishment of a strategy to build up the nation's manufacturing industries to the point that their current production is in approximate balance with the domestic Canadian market.

(e) The introduction of an expansionary fiscal strategy designed to pour increased purchasing power into the hands of Canadian consumers through such devices as higher family allowance payments, higher spending on home building and the rebuilding of the nation's depleted and decaying social infrastructure.

Canada must not allow US policy to drag it down into what I would consider economic oblivion through a Canada-US free trade agreement. The Reagan administration is demanding that Canada place itself in a permanent position of economic and diplomatic subordination. Under this permanent subordination, the policies of Canada's national and provincial governments, which might in any way be harmful to the US, would be continuously subject to US government review.

In Canada, avoiding the suffocating entanglements of a Canada-US free trade agreement is the minimal price of national, economic and political self-preservation. In Canada, asserting nationalism and the defence of national rights is the price of internationalism.

That is my submission. I have tried to cut it down to save time.

Mr. Chairman: Thank you very much. You have covered a lot of territory.

Mr. D. W. Smith: You have given us some interesting history. In respect to item 20 on page 17, how many people do you think Ireland could have sustained or maintained if it had been given the same advantanges? I suppose there was not free trade between those two countries. I am not a world traveller so I do not know the size.

Mr. Carrigan: I have heard some estimates that Ireland's agricultural potential is so great it could support a population of 50 million. Of course, when you are dealing with its industrial development, which is a major issue, much of the industrial capacity of Ireland in the early 19th century was wiped out by free trade. It is limitless.

Hong Kong has five and a half million people in an area about the size of Toronto. Under nationalist policies, which was what Germany and other nations pursued, they could have supported a population of 50 or 60 million or more. That would still leave a population smaller than that of the Netherlands, Belgium and so forth.

There are an estimated 120 million people descended from those 4.5 million Irishmen, all over the world and in the United States and Canada. The US census has estimated there are 40 million people of Irish descent in that country. I think the number is growing in Canada. If the Irish had stayed home, you would be looking at a possible population of 50, 60 or 70 million. You may not consider it desirable, but it certainly would be possible, as the experience of other nations has indicated.

Mr. D. W. Smith: You believe it was because of a policy of free trade that Ireland was not allowed to grow in the same way as England was.

Mr. Carrigan: Yes, that is my estimate, because they were forced back in terms of cultivating potatoes for food. They had export crops. When the potato famine, which affected all Europe, came along the Irish were so dependent upon potatoes that there was mass migration and starvation. At that time the population dropped three million in the course of about seven or eight years. Ireland was given free trade. It was supposed to be a boon, but

it was ineffectual. It meant that all industry prospered in Britain and to some extent in some areas of northern Ireland.

Mr. D. W. Smith: If we were to accept total free trade with the United States, how many years do you think it would take Canada either to have a tremendous migration of people into the United States or to become stagnant?

Mr. Carrigan: My interpretation is that we would become stagnant. I do not know. We are looking at American immigration laws which are rather strict. I am trying to use Puerto Rico and Ireland as instances. I can also cite West Virginia and North Dakota, and various others. Free trade is not--how shall I say it?--a panacea.

If you get free trade, you do not necessarily get expansion. Ireland and Puerto Rico were given free trade, and it killed off investment development because they cannot compete with established industries in the rest of Britain or in the rest of the United States. It was not an opportunity; it represented economic and industrial annihilation.

Mr. Mackenzie: I want to congratulate Mr. Carrigan on pulling together a great deal of information. It is obviously an interest of yours, but I am not sure many individuals would have pulled together as much material.

Mr. Chairman: I echo that. You have obviously done a lot of work on this, and it is very fascinating.

Mr. Carrigan: I could have have used other examples, for instance, South Korea's import duties of 95 per cent and 105 per cent. Back in 1960, that country exported only $35-million worth of products. Now its exports are $20 billion a year, and we are talking about it being a threat in high-tech industries, which it is becoming. Three years ago, in 1983, it produced only 62,000 automobiles. Now it is marching right into Canada.

Do you do this through a trade policy? First, it has protectionism; it has tight control of importing. Second, there is no foreign ownership; it has Hyundai and Samsung and other industries. In many respects, South Korea, and previously Japan, are examples to us of countries that have rejected a free trade option with brilliant success.

Mr. Chairman: Thank you very much. You have been very helpful.

The committee recessed at 12:21 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, APRIL 16, 1986

Afternoon Sitting

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Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From Telesat Canada:
Thompson, E. D., President and Chief Executive Officer
Frank, C., Program Manager, Anikasting Inc.

From the Ministry of Intergovernmental Affairs:
Posen, G. S., Deputy Minister
Morel, D., International Relations Officer

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, April 16, 1986

The committee resumed at 2:07 p.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: Let us get going. Gentlemen, you have had distributed the text of Ambassador Yeutter's speech to the Senate finance committee, courtesy of the Ministry of Intergovernmental Affairs. As well, prior to this afternoon's hearings and, I think, the commencement of this set of hearings, we received the brief from Telesat Canada. Copies of that are going to be available to committee members shortly.

We welcome this afternoon Eldon Thompson, who is the president, and Chris Frank, who is the program manager, of Telesat. Gentlemen, would you quickly take us through your brief and then entertain some questions?

TELESAT CANADA

Mr. Thompson: I am Eldon Thompson and this is Chris Frank. I will try to give you a very brief overview without getting into the paper itself, which you can read at your leisure.

First, we have attempted to address free trade not from a broad perspective of what it will do to Canada but rather from the perspective of what it will to our company and to the two industries we are involved with: namely, broadcasting and telecommunications carriage. Our views on free trade represent only one small sector of the spectrum, as you will appreciate. I suspect that there are benefits in other sectors, but we are not qualified to speak to them. We do feel that we are qualified to speak to the impact that free trade may have on our company, though.

To give you a very brief description of our company, we are Canada's only satellite carrier. We own and operate the telecommunications satellites that hang out in space some 22,000 miles over the equator, and we carry over those satellites signals for the broadcasters in Canada. That represents about 50 percent of our business.

We also carry voice, data and image telecommunications traffic, for private line circuitry, for corporations and also for the carriers. For example, we provide almost all of the long-distance telephone service to and from northern Canada. That represents roughly half of our business. If you will, we have a foot in the telecommunications carrier camp and a foot in the broadcasting camp, because about 85 percent of the intercity television broadcasting and radio broadcasting in Canada today is carried over our satellites.

In designing a telecommunications satellite we work to very long lead times. We are right now out to the manufacturers on the design of a satellite that we will launch in 1990 that will have a life of 10 years--in other words, it will carry us to the year 2000. We had to decide what the market for that was last year and the design parameters. That will represent an investment of $400 million.

It will be necessary in 1990 to replace the satellites we have now, which have a finite life. We are right now in the process of building the satellite system we will have in the 1990s, and that is important to us because we have designed that satellite with antenna patterns for Canadian coverage. There is a convention under the International Telecommunication Union that says you do not deliberately design your satellite to cover another country.

Within the limits of technology, our antenna patterns are aimed for Canada. They do overlap into the United States. We have two kinds of satellites. On what we call the C-band satellites, because of the broad distribution nature of them, we cover almost all of the United States, so that we are in a good competitive position there, which I will get to a little later. In the second group of satellites, the KU-band satellites, we overlap into the US only about 300 to 400 miles, which covers a very small part of the US territory, and we must design our satellites to cover northern Canada so, naturally, we look north.

By the same token, the American satellite carriers design their satellites to cover the United States, and they get accidental overlap into Canada of about 400 miles, which covers 90 per cent of the Canadian population and almost all of the telecommunications market in Canada. If there were to be free trade in services that included satellites, the American satellite carriers would be in a position in that frequency band to cover almost all of the telecommunications traffic in Canada; we, by the same token, would not be in a position to cover all of the American market. Bear that in mind. I will come back to it in a few minutes because it is a technical imperative we face that I would like to refer to.

Free trade could have an impact upon us in three ways. First, it would provide direct competition in services by allowing the US carriers to offer service in Canada and presumably by allowing us to offer service to and within the US, so that we would be in a competitive mode with them. Second, it would have an impact on our markets in that the telecommunications carriers who are our customers would face competition from the US carriers, and there would be a severe impact on the broadcasting industry in Canada, which represents half of our business, by the American broadcasting industry. In addition to that, presumably the hardware we use would be subject to no import restrictions.

If I may deal with those areas one by one, we have very little concern as an operator on the hardware side of the house. In fact, free trade in hardware would probably reduce our costs somewhat and put us in a better competitive position as a result. With free trade in hardware we would look to a two per cent or three per cent decrease in our capital costs. It would have an impact on the Canadian manufacturers of the kind of hardware we use. Today, they can hide behind tariff barriers but would now be subject to wide-open competition by the American suppliers. However, for us as an operator, our costs would be marginally reduced, so that we have very little concern there.

As a carrier we have very little concern. We feel that if there were free trade in services--in other words, if the American carriers were allowed to serve Canada and if we were allowed to serve into US with no restriction--on balance, there would be a marginal increase in our market. But we wished to make clear in our brief that we are subject to extremely heavy regulation and regulatory restraints in Canada while the US industry has been almost completely deregulated. If there were to be free trade in services and if we were to compete with our American counterparts, the playing field would have to be levelled by reducing the level of regulation on us. If we were not

given pricing flexibility, hardware sourcing flexibility, freedom from the Canadian-content legislated constrictions that we work under today and freedom from the regulatory lag and the cost of regulation, we would not be competitive. But presumably, under those conditions, all of that legislation, which is mountainous, would be changed and the playing field would be levelled for us. If it is, we have little concern in that sector of our business.

However, we have major concerns about our ability to serve the broadcasting market in Canada. We would feel two impacts there with free trade. If the American satellites were allowed to carry Canadian broadcasting traffic, they would take some of that which we are now serving, because they can serve it incrementally to the American system. We would not be competitive with the American system unless our antenna patterns, which will not be changed until the year 2000, were satisfactory for American coverage. That would cost us some traffic.

However, the big impact would come because all of the American premium and specialty television services could now be served by their equivalents in the United States on an incremental basis at very low cost. Our fear is that segment of the Canadian broadcasting industry would disappear and with it would disappear about 40 percent of our market.

In a nutshell, that is our big concern: that companies like Cancom, First Choice and Superchannel would find that their operating costs in Canada, relative to the size of their audiences, would be extremely high compared with those of their American conterparts. All of those companies today are handling a great deal of American programming for which the American broadcasters have rights and to which Canadian rights could be added at a very small cost, so the Canadian companies would not be competitive and would disappear, taking with them 40 per cent of our market.

In a nutshell, that is our big concern with free trade. If it is extended to include services, including broadcasting services, it will have an enormous impact on our company and also will have an enormous impact, we feel, on all of the Canadian television industry except for conventional television broadcasting, such as the prime CBC network.

In very brief summary, that is the content of our brief.

Mr. Mackenzie: It is not a very comforting brief, when you take into account their ability to broadcast from their satellites with those investments or even the carryover now, and the service trade that you are talking about.

Mr. Thompson: That is accurate. A company like Cancom, for example, exists only by rebroadcasting American signals that are already available in Canada, if the cable operators can take them off the American satellites directly. Companies like First Choice have to buy tranmission facilities for a small Canadian audience. Home Box Office can serve them on the same channel it is using today in the United States at very small incremental costs.

Mr. Mackenzie: Given the whole package, can you see any upside for your industry?

Mr. Thompson: We have a small upside on the corporate communications north-south, if we can get our antenna patterns in line before free trade falls and if we can free ourselves of our present regulatory constraints. But that positive impact is dwarfed by the negative impact resulting from the lost broadcast business.

Mr. Mackenzie: I am wondering whether it is not a double whammy, even that potential upside you are talking about. I am wondering--and it just hit me in your presentation more so than in any others--whether the real battle is over free trade or deregulation. You are saying, and I think the trucking industry said exactly the same thing to us, that the only way you are in the ball game at all is with almost total deregulation.

Mr. Thompson: Yes, and we have made the assumption that free trade would mean that the regulatory rules would move towards those applicable in the US today, which has pretty much open competition. Those companies have an advantage in that they now have three or four years of experience; they are used to operating in that environment and have the major US companies lined up as customers, who presumably would add them to their networks. We would have to start from ground zero.

Mr. Mackenzie: I think it a dirty Tory way to get into deregulation.

Mr. Thompson: Mind you, at the same time we are a small company. We are only 600 employees. Our loss may not be vital to Canada, although someone has to serve northern Canada and currently that is us.

Mr. Mackenzie: I do not think the argument can be made that it would not be important to the country.

Mr. D. W. Smith: Supplementary to Mr. Mackenzie, what were some of the things the trucking industry had to do to adjust? What adjustments have they made in the last three or four years that we would now have to make in order to compete?

Mr. Ferraro: They are not truckers.

Mr. D. W. Smith: I know, but he said the trucking industry had to make adjustments and I wondered how they did it?

Mr. McFadden: Bob said that.

Mr. Thompson: I think he said it. I am really not very knowledgeable about the trucking industry.

Mr. D. W. Smith: I am sorry. What adjustments would your industry have to make if there is deregulation?

Mr. Thompson: There is some parallel. I understand the trucking industry in the United States is free to drop off and pick up wherever they choose and they are not in Canada. We are in roughly the same boat in terms of carriage of television signals. We can only carry what the Canadian Radio-television and Telecommunications Commission chooses to license. In the USanyone who wants to have a go at it can try. Consequently there is a lot more business.

Mr. D. W. Smith: But if it is going to be open warfare with your industry, what adjustments do you have to make in order to keep up with the US? What different aspects are there?

Mr. Thompson: If we were a service provider competing in the US market we would have to change the incentive patterns on our satellite. That represents a very large investment that is now in progress. We will not have a chance to do that until the year 2000. That is a distinct disadvantage.

As far as regulations are concerned, we have to file every service rate for approval and prove that it is profitable, display all of our costs and all of our terms of business for our competitors and put up with regulatory lags of anywhere from six months to four years before we can bring a service to market. Certain kinds of services we cannot offer. We do not have full interconnection to the telephone network, whereas all the American carriers do. If we were to be given an equal footing all the regulatory constraints, would have to be remote. Almost all of them are founded in legislation.

Mr. D. W. Smith: So that in a few years you would be so far behind you could not even cope.

Mr. Thompson: If we lost 40 per cent of our business we would be uneconomic.

Mr. Mackenzie: The game would be over until you had that new satellite in the year 2000.

Mr. Thompson: I presume the result would be that the government would have to step in and see that there was a satellite available for northern Canada but it would not be a commercial operation. While it is vital for the north, there is not enough traffic and revenue in the north to support it.

Mr. Frank: Excuse me. It might be worth while to point out that once a satellite is in space the antenna pattern is fixed so that what we are talking about is changing before the satellite goes into space. You cannot reel it in, as it were.

Mr. D. W. Smith: You cannot bring it back down.

Mr. Frank: You cannot change it. Once it is there, it is fixed.

Mr Thompson: A space shuttle goes out at 160 miles per hour; they are out at 22,000 miles.

Mr. McFadden: You need a long Canadarm.

Mr. Thompson: A space shuttle is used mostly for satellites which are primarily military or surveillance of weather satellites.

Mr. McFadden: Exactly who owns Telesat? Is it privately owned, mixed public and private or all publicly owned?

Mr. Thompson: It is mixed. There are 6,000,002 shares. The government of Canada owns three million, three million are distributed among the various telecommunications carriers, Bell owns 25 per cent, BC Tel owns about 15 per cent, CN owns about four, CP owns about four, Ontario North owns a few, Quebec Tel owns a few, I own a share and the chairman owns a share.

Mr. McFadden: What was the reason for that structure? Was it to bring both a form of balance to the corporation so that both public and private interests could be taken into account, or was it the weight of finance? What was the reason for the mix?

Mr. Thompson: In my opinion it was an academic dream that probably constitutes the worst of all worlds. Originally, I gather it was intended that it be tripartite, about a third government, a third carrier and a third

distributed to the public. The idea of having the government in there was so that government policies could be furthered. The idea of having the carriers in there was that they control the origin of almost all telecommunications traffic and if you ignored them, some of it would not be used. The idea of having the public in there was because it would give this thing general acceptance.

When it came time to finance this, the government put up $30 million and the carriers put up $30 million. However, the advice of a financial consortium was that the shares were unsaleable to the public and its advice continues in that vein today, although we are getting very close. If we needed equity, we could probably float some public share issue. It so happens that in our current cycle our debt ratio is very low, so there is not much point in that.

The original idea was a bit of an academic concept that a tripartite organization was workable and would further the interests of these three groups. In practice, it means that the interests of none of those groups are well served, but that is a personal opinion.

Mr. McFadden: In so far as the services your satellites provide, is any of it related to defence uses, or is it all basically private and public communications?

Mr. Thompson: We do not carry any operational military traffic. We do carry some military administrative traffic, for example, telephone calls out of the north. If and when the north warning system is implemented, it will shift from a terrestrial basis to the use of satellites, but it will be in a communications carriage mode. There is no ability in our satellite to do surveillance or anything such as that. We can handle purely communications.

Mr. McFadden: It would seem to me what you are describing here is a service that is vital economically but also, I would argue in the broadest sense, important in terms of national security in that while you might not be providing satellite surveillance services or anything of that nature to the military, what you are providing as a common carrier is basically absolutely vital to the country.

The service you are providing would surely be considered in a separate category from the common exchange of goods and services of another type. I do not know what the current prevailing view is in terms of any federal negotiators. Have you made your views known to the various people in Ottawa? You are 50 per cent owned by the federal government so I assume it is aware of your views.

Mr. Thompson: We have made our views known to everybody who would listen, including the federal committee which is reviewing the trade position.

Mr. McFadden: Have you any indication as to its attitude in this area?

Mr. Thompson: They have all said they are very interested in our briefs. It varies. The people in the federal communications department have indicated they will try to keep trade in broadcasting services off the agenda for free trade. On the other hand, Mr. Eastman said, as recent as in today's quote in the Globe and Mail, that he thinks the whole spectrum is open. It is a little cloudy.

In my opinion, there are American interests that will insist it be on

the table. We do know the American broadcasting industry is upset over Canada's treatment of the copyright issue and other broadcasting issues. If at all possible, the Americans will insist that it is a negotiating point.

Mr. McFadden: As far as you know, has Canada been under any pressure up until now from American satellite interests to deregulate or to cut into your market in Canada in any way? I have not read of any pressure.

2:30 p.m.

Mr. Thompson: There has been quite a bit. The American satellite carriers would like to land their services in Canada and pick up traffic in Canada direct. On a one-way basis, television programming coming into Canada is received now by anybody who wants to receive it in that fashion. Two-way services and occasional programs are all handled on a negotiated basis.

That pressure came to a head about two years ago. There was an exchange of letters between the Canadian and American governments by which we were designated to handle the Canadian end of Canada-United States satellite communications and the American carries its end with a view to achieving contractual relationships. We have been able to do that in most sectors. We carry about half the traffic between the two countries today. They did not get what they wanted in the first place, which was the right to carry intra-Canadian traffic and they would still like to have that.

For example, on a corporate communications network, such as the General Motors network, they might have a couple of nodes in Canada and maybe 15 or 20 nodes in the United States. They would like to serve that kind of traffic including the intra-Canadian portion on one network on an American satellite. Currently, that is not allowed under the rules between the two countries. There is still some pressure to include Canada in the US competitive telecommunications environment.

Mr. Frank: I would like to add something to the point Mr. Thompson made with respect to one-way traffic. Currently, cable television companies in Canada pick up premium services on the national network, CNN news--those kinds of services--from American satellites. If broadcasting was wide open, we would see that example spread right across the board. It is an example of a peripheral market which is now open to American competition and we have Canadian companies looking directly at Amercian satellites. If the whole game was wide open, that would proliferate right across the board. That is a good, concrete example of what might happen.

Mr. McFadden: Who is involved with the Canadian Broadcasting Corp. proposed super station? Are you going to be involved with relaying that message throughout the US? Are they using the American satellite? What are they proposing to do in that regard?

Mr. Thompson: They have not been able to float as yet, but their proposal is they would originate programming in Canada through an American satellite and distribute in the United States but not in Canada. Their proposal is to distribute that using an American satellite. I would not object to that because it is primarily an American distribution service. I would object if they were going to distribute in Canada over an American satellite.

Mr. McFadden: I take it that Ted Turner's super station in Atlanta, and so on, has not utilized the service of Telesat to reach Canada.

Mr. Thompson: No.

Mr. McFadden: Have you had any nibbles from him or any of the others?

Mr. Thompson: No, and not likely to. He would get better coverage currently on an American satellite and I do not think the CRTC would look favourably upon him distributing in Canada at any rate.

Mr. Ferraro: Are you saying that you do not have any American customers?

Mr. Thompson: No, we do not. On occasion, we have offered some intra-USservice. The current arrangement between the two countries is that if there is a shortage of satellite capacity in one of the two countries or if there is a coverage problem, a satellite of the other country may be used. For example, we were serving Alaska for quite a while because the US did not have a satellite that had coverage in Alaska and we did. The Alaskan carrier has been ordered off our satellite since there is now a satellite in the US which can handle it. That is very occasional use and we have had a little bit of that in the past.

On the handling of hockey programs, for example, the working rule of thumb we have worked out with the American carriers is that if the program originates in the United States and is destined primarily for Canadian audiences, it goes on our satellite. If it originates in Canada and it is destined primarily for American audiences, it goes on their satellite. That worked pretty well for occasionally used programming which is primarily sporting events and the odd thing such as the Pope's visit, because that kind of traffic is about 50-50 across the border. We get about half of it.

Mr. Ferraro: Do you have any offshore customers?

Mr. Thompson: No, not off our satellite which does not provide offshore coverage. We serve the oil rigs in eastern Canada, but they are only 200 miles offshore. We do not serve the Caribbean or any place like that.

Mr. Ferraro: You do not have anybody from Europe coming in and buying your services, for example.

Mr. Thompson: No. Our satellites do not reach Europe, so we do not cover that.

Mr. Ferraro: I realize that. Let us say Japan wanted to come in and make sure that all of Canada got it.

Mr. Thompson: We would sell them a channel if they wanted one--

Mr. Ferraro: Do you do much now?

Mr. Thompson: --if they were legally entitled to do that, but if it is broadcasting, the CRTC does not allow that. In this telecommunications traffic, we do carry a lot of through traffic. Teleglobe brings it as far as the east coast. We will carry it to Vancouver, give it back to them and they will carry it to the Far East.

Mr. Chairman: The Canadian network is bringing material from Europe.

Mr. Thompson: Most of that flows over the Intelsat satellite, which

will cover the eastern fringe of North America and the western fringe of Europe. Then we pick it up from Teleglobe, which is the Canadian signatory that arranges for that. Usually, we pick it up in Montreal or Nova Scotia and carry it from there.

Mr. Frank: If I might interject here, a company in Quebec, called La Sette, distributes French programming from France. It comes here in a can and is transmitted by our satellites. The copyright is owned and controlled in Canada by Canadians.

Mr. Chairman: Thank you very much. This is useful. It presents a perspective that many of us had not really looked at. Not only is your company seriously concerned, but the communications perspective in much of Canada needs to be considered and protected. We appreciate your coming.

The committee will take a short recess. I am not sure whether the next witness is here yet.

The committee recessed at 2:38 p.m.

3:51 p.m.

Mr. Chairman: Welcome. Sorry to keep you. Perhaps we can get started again with Hansard.

This afternoon we have with us Gary Posen, Deputy Minister of Intergovernmental Affairs, and David Morel, an international relations officer with the Ministry of Intergovernmental Affairs. On Friday last, Mr. Morel was in Washington as an observer before the Senate Finance Committee. I understand he is here today to brief us as to what he saw there. Prior to that though, I understand you have some news for us, Mr. Posen.

Mr. Posen: According to the wire service as we came in, my understanding is that the Senate Finance Committee in the United States has postponed the vote for a week. We might want to think about that after David has concluded his remarks.

Mr. Ferraro: Is that as a result of Mr. Yeutter's presentation?

Mr. Posen: We can only speculate as to who is putting pressures on whom at this point.

Mr. McFadden: My information is that it was a decision of the administration to postpone it. I think Packwood said he did not know if he could hold the committee for a week.

Mr. Chairman: But now the committee has been held over for a week?

Mr. Posen: Yes. The committee will not go tomorrow. There have been at least five or six stories coming out of Washington, but the latest one, the one that has gone public anyway, appears to be that it will wait for a week before it acts.

Mr. Chairman: Fine.

Mr. Mackenzie: Is there a deadline of April 23?

Mr. Posen: Again, it is our understanding that April 23 brings the 60 days to an end, but I do not know enough about the workings of the US Senate as to whether it has a means of holding the clock or deeming time to stop for the Senate.

Mr. McFadden: I wonder if I could ask a question. I know we are going to get off to a bad start here with the interjections.

Do you have any indication that the delay is basically a strategy that the committee might use to not ever bring it to a vote because of the political implication? It has already registered its disapproval of the administration's approach to trade policy and it may now just let it quietly go through having registered its complaint.

Mr. Posen: What I was going to suggest we do then, and the roundabout answer to your question, is ask Mr. Morel to talk specifically to the events as they unfolded last Friday and then share with you in a speculative way what the motivations might have been and what some of the scenarios might be. I noticed as I was writing them up last night, if the vote is postponed for a week, this morning we can look at one of those scenarios perhaps and just think through what some of the pressures might be. It is not clear who is pressuring whom at this point.

Mr. Chairman: Mr. Morel, would you like to continue then?

Mr. Morel: The purpose of the hearing that I went down to observe was to review the administration's request to proceed with the fast-track process negotiations which Canada underlined.

The fast-track process is designed to give the administration more control over trade negotiations and denies Congress the right to amend an already negotiated agreement.

At the hearing, 12 of the 20 senators who were on the Finance Committee were present at one time or another. I would like to review their comments for you, and then I will move on to comments and statements that were made by Mr.Yeutter, who was one of the witnesses. I will then briefly review some of the industry testimony that was given by witnesses.

Senator Packwood, who is chairman of the Senate Finance Committee, a Republican from Oregon, opened the meeting by saying he believed there was sufficient support in the finance committee to block the Americans' administration request to proceed on the fast-track process. He indicated his frustration with a number of Canadian trade practices, most notably softwood lumber.

Senator Baucus, a Democrat from Montana, indicated that he supported the free trade agreement with Canada but will vote against proceeding with the talks under the fast-track process. He felt that not enough information was known about the effects of a trade agreement on the US economy. He also indicated that if the administration was to request authority again at some future date, when the effects had been spelled out to him better by the administration, and some of the trade irritants with Canada had been cleared up, he might grant the administration permission at that time.

Senator Grassley, a Republican from Iowa, said that talks should proceed that seek assurances that the administration would not ease unfair trade practice laws for Canada. He also voiced concerns over the alleged subsidization of pork exports to the United States.

Senator Mitchell, a Democrat from Maine, commented on the long history of friendly relations and co-operation between the two countries. He then outlined some of the trade disputes that Maine has with Canada. These were the fish and potato exports. He also commented that if negotiations commenced he would strongly oppose exempting Canada from unfair trade practice laws. Finally, he proposed the creation of a joint economic committee to deal with trade disputes.

Senator Long, a Democrat from Louisiana, stated he would vote no because details of the impact of the agreement were not known. He indicated that he would change his vote when more details of the agreement were known, or he could change his vote. He was also concerned that the Senate would not have enough say in the actual negotiations under the fast-track process.

Senator Danforth, who is chairman of the trade subcommittee, and is a Republican from Missouri, spoke little about Canada and was mainly critical of the administration's trade policy. He said he was voting against the administration proceeding because of the unwillingness to consult or co-operate with Congress on the direction of US trade policy. He also noticed the concerns that the agreement would not bind the Canadian provinces.

Senator Simms, a Republican from Idaho, indicated he would block the administration's attempt until the lumber issue was settled.

Senator Chafee from Rhode Island had some concerns about the negotiations, but indicated they should go ahead. His concern was that the provinces would not be bound by an agreement. He also indicated that Canada should not obtain any special provisions under the US trade law.

Senator Bentsen from Texas supports a free trade agreement in principle but would vote no to send a strong signal to the administration that the Senate has been ignored for too long on trade policy issues.

Senator Heinz from Pennsylvania indicated he would vote no because of the administration's treatment on trade policy. He also noted the need for stronger trade remedy laws and sought assurances that the provinces would be permanently bound by an agreement.

Senator Pryor from Arkansas was also concerned about the softwood lumber imports, which he believes are affecting the timber industry in his state. He indicated he would vote no due to the administration's treatment of trade policy.

Senator Moynihan talked at length on Canada as a good neighbour, and how serious it would be to reject Canada's attempt to get a free trade agreement. He also had serious concerns of the administration's handling of the trade policy.

I might briefly sum up the senators' comments. There are three major themes throughout. The first was the concern that the Senate had lost too much power over trade policy to the administration, and it must reassert its authority. Its specific concern was that the fast track, if approved, would grant the administration too much power over the Senate in these negotiations.

There were also concerns over trade irritants with Canada, specifically with softwood lumber, fish and potatoes. There were also more specific concerns about things that Canada had requested, such as the loosening of trade remedy laws, or the concerns over provincial participation where the provinces would not be bound by an agreement.

4 p.m.

I would like to move on to Mr. Yeutter's testimony. He basically warned the senators how serious it would be for Canada-US relations to reject this agreement. He then outlined what the administration would be seeking in the negotiations. Basically, he said the administration would be seeking the removal of all tariffs, or at least reductions in the differences between Canada and the US rates, a reduction in Canada's nontariff barriers, particularly barriers which affect the export of telecommunications equipment, power generating equipment, alcoholic beverages and agricultural products.

It would be seeking a service agreement that the US could use as a model in multilateral negotiations, reduce Canadian barriers to investment, protection of intellectual property rights, specifically pharmaceutical patents, and general discussions on Canadian subsidies.

He then faced a number of questions from the senators. The questions were in four major areas: US trade remedy laws, provincial participation, exchange rates and lumber.

In responding to Senator Mitchell's question on Canada being given special consideration on US trade remedy laws, he said that it was an impossible request on Canada but that it was still open to negotiations.

Some of the senators questioned Mr. Yeutter on how the provincial governments would participate in the negotiations. Mr. Yeutter replied that it was up to the Canadian government to come to an agreement with the provinces. He added that Mr. Reisman must ensure that the provinces sign off on an agreement or there can be no sign-off or there can be no agreement.

Senator Baucus asked if exchange rates were on the table. Mr. Yeutter responded that exchange rate negotiations are not dealt with by the USTR so he could not comment on them at the time. However, in his opinion, the Canadian government was not manipulating the value of the dollar to obtain an unfair trade advantage.

When questioned about the progress of the lumber negotiations Mr. Yeutter responded that they are ongoing but if progress was not made in 20 days it would be time to cut the date on negotiations.

There was then a presentation by a number of industrial groups. Most of the senators had left the room by this time but the various industry groups were assured that the senators would read their reviews.

The Coalition for Fair Lumber Imports outlined the problems they were faced with by Canadian softwood lumber imports and problems they were causing in the industry. It urged the administration not to progess with talks until the lumber issue was resolved.

The National Association of Manufacturers urged the senators to proceed with the negotiations. They had a number of concerns, mainly that the final agreement deal with investment, intellectual property rights and include provisions for consultation on exchange rates.

The Automotive Parts and Accessories Association wanted the after-market auto parts excluded from negotiations. The National Fisheries Association also wanted fishing to be taken away from the negotiations and not be talked about.

That is basically what has happened, or what I observed when I was at the talks.

Mr. Ferraro: One of your observations was about the concern that Mr. Yeutter indicated in dealing with the pharmaceutical practice.

Mr. Morel: Yes.

Mr. Ferraro: Was there any mention made of the proposed federal legislation that is in the throes right now?

Mr. Morel: He did not talk about that specifically.

Mr. Ferraro: He did not mention that at all.

Mr. Morel: No, he did not. He just said that was an issue that the United States would be negotiating with mechanically.

Mr. Posen: As Mr. Morel has noted, one can summarize the motivations of the Senate. On the Senate Finance Committee there is irritation with the US administration over the congressional role on trade policy, and a sense that the fast-track approach itself may not leave them enough leverage when it comes to the specifics of the agreement. It means they can either accept it as it is or reject it in total.

It is true that in the Senate and House there are a number of trade bills which are being developed in the two Houses of the US Congress. Again, one of the irritations and concerns is to negotiate with the administration as to what kind of bill the administration will accept.

There is some concern about the administration not having been decisive enough in the past on trade policy generally, and on some of the issues which are current with Canada.

A second set of motivations may well be the irritation by a number of the senators with Canada in terms of current trade issues, as Mr. Morel noted, such as softwood lumber, pork, potatoes and fish. These were all mentioned by the various senators. That leads us to question what scenarios might unfold and some of the motivations for them. There are three things one can look at.

One is that the Senate intends to reject the administration request. The irritation goes very deep. It wants to send a message to President Reagan. From the Canadian point of view, the Canada-United States negotiations were the things that brought it about. It could have been US-Iceland negotiations. The exact measure was not the important thing. It was the most convenient thing for sending a message to the President.

As Mr. McFadden has noted, another possibility is that the message has now been delivered to the President. The Senate has flexed some of its authority. It may have asked for and received some indications from the White House. We do not know. But in effect, there is a message: "Keep us informed. Keep us involved. Settle the irritants, but having sent you the message, we will not turn down the request."

The third possibility is that the whole event--as it started last Friday, much to everyone's surprise--was a message from the Senate to the White House saying, "Let us begin negotiations between Congress and the White

House on the trade bill and on the Canada-US negotiations and the Senate's role in those negotiations." It was also potentially a message to Canada saying, "Let us open some negotiations now before we vote on the bill to see what kind of concessions we may want to make on lumber, pharmaceuticals, etc., and what kind of promises or indications the Canadian government might want to make publicly or privately in the short term."

As I noted, one can only speculate about those possible scenarios until the events unfold throughout the rest of this week and into next week. We cannot be sure which game they are playing. The focus may be between the Senate and the White House and Canada may not be part of it at all, or Canada may have a part to play in that negotiation.

Mr. Chairman: I get a feeling from the report that there is a lot of power struggle involved in it.

Do you have any information with regard to what options are open if there is no vote or if there is a vote to turn down negotiations? What options are open to the President?

Mr. Posen: Again, we can only speculate at this point. My speculation may not be that informed. I do not spend time in Washington. I am not familiar with US situations.

There are a number of possibilities. One is that the fast-track method could be resubmitted.

Mr. Chairman: Immediately?

Mr. Posen: Potentially. There has been some discussion in the media--none that we have had officially--whether it would require the Prime Minister to start at the very beginning and submit the request to the President all over again. We have been trying to think it through. Does that mean that if it did work that way and the President submitted a request to Congress again, one would have to wait out the full 60 days of joint sitting time, or could Congress do something on day one to indicate that it will take no further action on it? In that case, permission has been given. Do we have to wait out the full 60 days? Those are questions that we are going to be asking. Needless to say, our counterparts in Ottawa at this point are not anxious to start dealing with those issues until they see how the actual events in Washington unfold.

4:10 p.m.

Mr. Ferraro: Obviously it is different, with party politics and the degree of commitment that members of particular parties have, but is it really logical that the administration would be caught off guard with that vote?

Mr. Posen: One of the advantages was having Mr. Morel there that day. I was concerned about whether there was an elaborate charade going on between the administration and members of the Senate committee. The answer was, if you had seen Mr. Yeutter's face as he realized what was happening, you would have had no doubts that he was genuinely surprised. Either that or he is a graduate of whatever school of acting.

It is pretty clear from all the administration officials who were there that they were very much taken by surprise, but suddenly they went into action. The phones started ringing and they were into battle stations right

away. This is true as well, as has been reported, for the Canadian embassy which had no indication of the vote.

Mr. Ferraro: I can just imagine Kelleher's face.

Mr. Posen: The speculation is that some of that stance was decided on that morning at a breakfast meeting a number of the senators had. One can only speculate that for them it became an opportunity to lever the President and the administration on the one hand and/or Canada on the other.

Mr. Mackenzie: I do not know if some of you remember our visit to Washington, but I remember very vividly the session we had. I thought one of the more interesting ones was with a chap by the name of Myers, who I think was one of the full-time staffers on the Senate commitee. Certainly, he spent some considerable time with us.

He made it, I thought, rather clear that he himself had serious doubts as to the ability of this issue to fly with the Senators. Certainly, that is the message I took. Maybe somebody here took a different message. He certainly raised serious questions about whether the support would be there.

I ask that following Mr. Ferraro's question simply because it makes me wonder just how close they were to the actual situation in the Senate committee. Some of us at least got that kind of impression from our briefing with Mr. Myers in Washington. Then you tell us here that the surprise indicated that they did not expect it in the least.

Mr. Chairman: Mr. Myers was with the foreign relations committee.

We generally had that perception talking to Congress, which we delivered to the administration. They tended to suggest that it was posturing at that time because of issues that existed. This was last September, of course.

Mr. Ferraro: The other impression I got was that many of the people felt it was no big deal with them.

Mr. Mackenzie: There is no interest in it within the executive, but Mr. Myers was quite clear on that issue. His perception was that it would not necessarily fly.

Mr. Morin-Strom: He was a Republican staff member to the US Senators.

Mr. Mackenzie: To some of the Republican Senators.

Is it possible for him to be that out of touch?

Mr. Posen: In that sense, we can only draw the same conclusions or ask the same questions from time to time.

Mr. Mackenzie: It does not really follow true from the perception I got at the meetings, but just exactly how much more do they want us to concede before they do open it up again? In view of the pressure that is coming, if that view was an accurate reflection of the feelings of some of the Senators to whom Mr. Myers was talking, then obviously they would like to play a little hardball.

Mr. Posen: I think that is as noted and it is one of the scenarios that will have to be inserted and it will have to be weighed against the other concern of the Senators, that is, the relationship with the administration. It is quite clear from some of their comments that is the relationship they are concerned about. This provides them with the means to put the pressure on and embarrass the administration.

Mr. D. W. Smith: Just a short question. With the change in strategy last Friday, did you observe that they wanted to lever Canada more, or did you think they wanted to lever the President more to get more power back into the hands of the Finance Committee from the administration's hands?

Mr. Posen: David you may want to answer that, but our sense, in looking at the testimony, is that each one was motivated on different grounds depending on whether his state was dealing with a particular problem. Senator Mitchell of Maine, for example, did not speak against Canada-US trade, but he has problems with both potatoes and fish in terms of the economic interests of his state. The senator from Iowa is involved in the lumber issue. Senator Packwood is involved in the lumber issue. A number of those senators are up for re-election this fall.

Mr. Morel: I would agree with that. Somebody like Senator Simms's primary concern is lumber while Senator Danforth's primary concern would be with the administration and relationship on trade policy between the Senate and the administration. It would have to depend on everything.

Mr. D. W. Smith: It is still wide open; you are just not sure yet.

Mr. Hennessy: I have to agree with Mr. Mackenzie in regard to what was said by Mr. Myers. I got that impression myself. Looking at the conversation with the other people we had there, especially with that senator from Minnesota who gave us the argument about the fishing rights on one side of the river and the other side of the river, there did not seem to be that much to create a world war; but as far as he was concerned, he was going to vote against it. There are more than 300 protectionist bills there.

Let us look at the facts. As far as I am concerned, if I were a senator, I would do the same thing that they are doing. They are there to represent the people of the United States, who come up with some argument and make it difficult for us. The people who are protesting in regard to lumber and other areas that are imaginary or real are bringing these up to make it as difficult as possible.

I have to agree again with Mr. Mackenzie that perhaps they are playing hardball to some extent. Nobody wants to give away the shop, no matter what one is buying. If you are buying a car, if the dealer says $15,000, you are not going to write a cheque right away. You will walk out, go to three other places and come back again and talk to him. That is the way the game is played. They are playing that game politically and they are representing their people. You have to expect that they are going to come out and play a little hardball. They cannot come out and say, "Okay, we are going to give you the shop." They have to make it as difficult for the President in order to get concessions for their own side. That is the way the game is played.

Mr. Chairman: Do you have a prediction as to how they are going to vote?

Mr. Hennessy: It is going to be difficult. It is not going to be as easy as you think it is.

Mr. McFadden: I am sure if the Americans were monitoring opinions on this committee, they would be worried as to what we had in mind as well.

Mr. Mackenzie: They want it all before we even start the talks.

Mr. McFadden: I think we want it all too. I get a feeling that we want to have our cake and eat it too. I do not think there is anything all that unusual. In fact, I found it somewhat surprising when I first heard that only a day had been allowed for the hearing.

The interesting thing, and I would like to get your feeling on this, is that the House of Representatives ways and means committee is the other committee that has to be consulted. My information is that Chairman Gibbons decided not to schedule a meeting even though he had received submissions against the administration's initiative--and of course others in favour--because he did not feel that they wanted to stop the launching of the talks. I am just curious if you have a feeling about that.

4:20 p.m.

Does that not confirm the suspicion that the fight with the administration might be a lot larger? You would have thought the House ways and means committee might have got into this a lot heavier if there were huge political problems with Canada per se. The Senate's role in treaty-making of course is well known in the US constitution and therefore it is going to be far more conscious of its constitutional rights than the House would be because the House does not really have a role in treaties per se. I am just curious to know if you have any feeling about the House ways and means committee.

Mr. Morel: There are a couple of things I would like to mention on that. The House ways and means committee has what you might want to consider a softer aspect on Canada. It has fewer members who have specific trade disputes with Canada. There are fewer people from lumber states, for instance. That is one of the reasons. I believe they are not as concerned about it.

When I was in Washington, I had an opportunity to go through the briefs that were submitted to the House ways and means committee, mostly from industry. A lot of industry is for a free trade agreement. Of course, you have to go industry by industry. There are always people who are opposed and those who are not. Just a feeling of the makeup of the committee made the difference. Generally, Senator Gibbons calls himself a free trader.

Mr. McFadden: He is from Florida?

Mr. Morel: Yes.

Mr. McFadden: As opposed to Oregon.

Mr. Morel: Actually, it is Rostenkowski who is chairman of the ways and means committee. Gibbons is the chairman of the subcommittee on free trade.

Mr. Posen: It is the Senate's role to approve an agreement. That is the key aspect of it. When it comes back even from the fast track, it is the Senate alone that has to say yea or nay. It has the longer-term key concern. The fast track is a new approach and it is a question of whether the senators are having second thoughts as to whether it is an approach they want to use at all.

Mr. McFadden: That is the point I wanted to raise. This came into law only two years ago. Which year did the fast track come in? Was it 1980 or 1984?

Mr. Posen: After the end of the 1970s.

Mr. Morel: It was used in the last round of General Agreement on Tariffs and Trade negotiations, so it has been in existence.

Mr. McFadden: It was in the 1980s. I just cannot remember the year.

Mr. Morel: It was amended in 1984. It has been in existence. It was originally used during the Tokyo round of GATT negotitions.

Mr. McFadden: Do you have any indication from your sources in Washington that the Senate is anxious to amend existing trade legislation in a major way, perhaps to end fast track? Or is it not looking at doing that so much as trying to be brought into the negotiations in advance and be more of a player than it has been?

Mr. Posen: Again, we can only speculate. We have no direct information one way or another. If I was setting out some questions to ask the Canadian embassy in Washington, those are among the ones I would be interested in asking.

Mr. Mackenzie: If I remember correctly, in the same conversation we had at some length with Mr. Myers, the question of the President's veto of any existing protectionist bills came up. I believe Mr. Myers made the case scenario that one of the things the President might face in the event he was too quick to veto the bills would be a move by the Senate to take away his authority for the fast track and the expediting. He made a fairly strong statement that this might be one of the possible results. I think that ties into the question David was asking. Is that part and parcel of what is going on? Obviously, the Senate wants more say, but is it the beginning of a campaign to take this authority away from the President or is that just a reserve argument?

Mr. Posen: Again, one can speculate that it is among the possible motivations. The Senate would like an indication from the White House now as to the kind of omnibus trade bill the President would accept later this year. It is looking for the promise to be made now. That may include some lessening of the President's authority, although my sense of most of those bills is that they are designed to redefine the notion of subsidy for purposes of United States trade policy, which would take a lot of the practices now extant in Canada and require the United States International Trade Commission to define those things as subsidies. Many cases where we have come out on the plus side would have to be thought out again. There is that side of it.

Mr. Mackenzie: We might be at risk.

Mr. Posen: We might be at risk.

The fast-track legislation has a sunset date, which I believe is January 1988.

Mr. McFadden: I have one final question that is of concern to me. I do not know if you have researched any of this, Mr. Morel. In my reading of

history, where the Senate has been guided in the national treaties, it tends to be very unhelpful overall, relatively protectionist, and to some extent narrow-minded. You can go back to the League of Nations and the objection of membership there.

I wonder if you are able to indicate what this might mean for the new round on the General Agreement on Tariffs and Trade. If the Senate were to sunset this whole legislation and force every treaty on business matters and all agreements from thereon to be dealt with under the treaty process under the constitution, what would that say not only about any Canada-US agreement, but also about any future arrangements under GATT? For example, if every GATT agreement from then on were deemed to have to go the Senate to be taken apart piecemeal in various Senate hearings, I am wondering if the Americans would ever again agree to a treaty with anybody that anyone else would ever want to enter into with them. Surely one of the reasons the fast track was put in was to allow the broader national and international interests which the administration is more capable of taking into account when it comes to the fore.

Mr. Posen: Again, one can only speculate on two possibilities: that the aim is to end the fast track and allow the Senate at the end of any negotiation to look at an agreement reached and decide to accept it as is or make whatever changes; or it is to use the existence of the fast track and the requirement of Senate approval to get it going, to get the White House to indicate to them in some way: "Here are the preconditions the United States is going into the negotiations with. There are certain things they will not accept; there are certain objectives they have." They will have a majority of the senators agree with that approach. In other words, they would have some sense of where the acceptable solutions would be for the United States as they went into negotiation, be it the Canada-US agreement or the GATT.

Mr. McFadden: In practice, would you expect it would require that the administration would have done prenegotiations with the country or the institution concerned prior to going to the Senate; or would you expect the more likely thing is that they would be putting on the table for all to hear what their preconditions would be for starting any negotiations?

Mr. Posen: I think there would be a lot of private discussions in those circumstances.

Mr. Cordiano: I was wondering if this was the first real opportunity the Senate had to send a very strong and clear message to the administration that it was totally dissatisfied with the administration's viewpoint with regard to its trade policy. This is their first opportunity to do that. Am I wrong?

Mr. Posen: It is certainly a key opportunity. I am not sure if it is the first major one they have, but the timing is right in terms of the trade legislation being developed in Congress and of the fact that it is an election year.

Mr. Cordiano: As we have said before, it is a power play and we are caught in the middle. Certainly it concerns everyone from the point of view that despite the fact we may not end up with a free trade agreement, we may end up having even more difficult issues to resolve as a matter of course with regard to what the Senate is going to go through.

Mr. Posen: In terms of economic adjustment, I think the challenges to Canada, Ontario and the other provinces are those of the particular trade issues existing between the countries that remain. Those are going to have to be dealt with in some manner.

Mr. Ferraro: Mr. Posen, you have the various scenarious presented to us from the US side. Can you present various scenarios on the part of Mr. Mulroney and gang?

Mr. Posen: I would not want to speculate on what the federal government may be doing.

4:30 p.m.

Mr. Ferraro: What initiatives or postures could it take, if any? You are speaking hypothetically.

Mr. Posen: Hypothetically and speculating, it seems to me if there is to be no fast track, they have a decision to make about whether to go on to approach from the slow track and leave open an agreement to be adjusted by the Senate at the end of a very arduous negotiating process.

Another one, of course, is to--

Mr. Ferraro: Sell part of the candy store.

Mr. Posen: It would be to look at some of the issues raised during the discussions and ascertain whether the Senate would be willing to consider another approach if some of those issues were resolved in the interim or if implications of the nature of the resolution were given to individual senators. They could decide to walk away from the whole notion, turn their attention to the GATT round and deal with the United States on the trade irritants on a one-by-one basis, as Canada has done in the past. Whether that is effective depends on what actions the Americans take in changing their trade policy and trade legislation.

Mr. Chairman: Smoothing out those irritants for them surely puts us in a very disadvantageous bargaining position to start talks, does it not?

Mr. Posen: It depends on whether the ground rules change. The difficulty is whether the Americans would make changes to their legislation--in effect, changes in those ground rules.

Mr. Ferraro: I do not suggest this is the scenario, by any means, but it sure as hell throws a lot of water on the fire of those who figure the US really wants this thing worse than we do. I am not saying that was the prerequisite of all this, but it certainly deflates some of the argument that has been made.

Mr. Posen: I have to agree that there are those who thought the US was much more strongly in favour of this than Canada. You have to wonder about it.

Mr. Cordiano: I wonder what this does to our position on the multilateral round or the GATT negotiations that will be coming up. If there is a lull and we do not go forward, and if those trade negotiations do not start, where does that put us? What sort of disadvantage or advantage is that? Obviously, it will not be an advantage to our efforts on the GATT round.

Mr. Posen: I am no expert in trade negotiations. I would guess that GATT negotiations will take a long time before there are any results. There are certain issues we would want settled rather quickly. We are not sure the GATT round is going to be effective in seeing those things settled. It may be that at the end of a five-year or 10-year GATT round there will be a number of advantages for Canada. However, to the extent we have problems with the US now and over the next year or so, the GATT round is not necessarily going to help resolve those problems.

Mr. Cordiano: That is what I am saying. If our foreign trading partners outside North America, let us say, outside the US--

Mr. Mackenzie: The only way to broaden it is to have a much more multilateral approach than that.

Mr. Cordiano: Certainly, but I am wondering if that will not put us at a disadvantage with respect to our other trading partners. Because of our difficulties with the United States, maybe we are perceived as being weak negotiators.

Mr. Posen: That is one interpretation. I would think for a number of other countries to which it may be an interesting signal in terms of the difficulty of dealing with the United States in some of these negotiations. In fact, they will have to come up with solutions which will be broadly acceptable to US public opinion as it is reflected in the Senate.

Mr. McKessock: Should not the GATT negotiations between the United States and other countries and between other countries and Canada be one and the same if we had free trade? It seems to me if we could go down there, buy any product and bring it back, the GATT negotiations the United States was carrying on would be very important to us. As well, those we were carrying on with other countries would be important to the United States.

Mr. Posen: As an example here, one could look at trade and services. Mr. Yeutter, in his comments to the Senate Finance Committee last Friday, noted that an agreement with Canada on trade and services could serve as a model for a multilateral agreement in the GATT round. In that sense, what is determined could work the other way. What is determined in the GATT round could serve as a model for an agreement between the two countries. I would guess, if you were negotiating, you would think it might be easier to reach a solution with two partners around the table than with 100 or whatever in the GATT on some of those very complex, difficult issues.

On the other hand, there are those who argue that it would be nice to have the support of a number of other countries in negotiations with the United States and not be on a one-on-one basis with them. There are certainly both perspectives on that.

Mr. Chairman: You raised an interesting subject when you suggested that possibly because it is a congressional election year, it may have had some influence on what has happened. It concerns me that as the weeks go by we are getting closer to the first Tuesday in November. The scenario I saw before last week was a lot of very hard negotiating through to a completion of an agreement by the middle of 1987 because they then have a 15-month period when they are getting ready for presidential elections. This means we are not going to accomplish anything until after November. Do we have any time to do anything?

Mr. Posen: Again, until we see how it unfolds next week, we do not know if it is going to be postponed or what options the United States government or the Canadian government might choose in the event of a rejection.

Mr. Chairman: I appreciate very much your coming here and giving us the information that you have. It is assisting us. Obviously, we have to ponder your comments and come to some conclusions. Thank you.

The committee adjourned at 4:39 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, APRIL 17, 1986

Morning Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS
CHAIRMAN: Cooke, D. R. (Kitchener L)
Andrewes, P. W. (Lincoln PC)
Barlow, W. W. (Cambridge PC)
Cordiano, J. (Downsview L)
Ferraro, R. E. (Wellington South L)
Hennessy, M. (Fort William PC)
Knight, D. S. (Halton-Burlington L)
Mackenzie, R. W. (Hamilton East NDP)
McFadden, D. J. (Eglinton PC)
Morin-Strom, K. (Sault Ste. Marie NDP)
Smith, D. W. (Lambton L)

Substitutions:
Bossy, M. L. (Chatham-Kent L) for Mr. Knight
Lane, J. G. (Algoma-Manitoulin PC) for Mr. Andrewes
McLean, A. K. (Simcoe East PC) for Mr. Hennessy
Sheppard, H. N. (Northumberland PC) for Mr. McFadden

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From Consulting Engineers of Ontario:
Weinstein, W., Executive Director

From Acres International Ltd.:
Baker, J. S., Vice-President, Corporate Marketing
Martini, M., Manager, Economics and Planning Department

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, April 17, 1986

The committee met at 10:08 a.m. in room 228.

ONTARIO TRADE REVIEW
(continued)

Mr. Chairman: Good morning, members of the committee. Happy Law Day to you. This is the fourth anniversary of the Charter of Rights. It is only the first anniversary for women, but they are catching up.

Before we get started this morning, we had decided to have a full discussion of the future of the committee tomorrow morning. We were expecting that the United States Senate finance committee was going to take a vote today. The Senate finance committee is not going to vote until next Wednesday. Is it still the wish of the committee to spend tomorrow morning discussing our future, or would it be more appropriate to wait until we know the decision of the Senate finance committee?

Mr. Barlow: Is there any chance of the Canadian Independent Computer Services Association being with us in the morning? That might help us to determine our course.

Mr. Chairman: They had some travel problems and indicated that they wanted to meet in the afternoon. Mr. Arnott got back to them initially to try to move them to the morning and see if they could avoid that problem. Then he withdrew that suggestion because we indicated we wanted to spend the morning chatting. Is that where it stands now? We would have to inquire again, and at this late date it might be difficult. I take it you are saying that if you have the morning free, you would like to come here and talk, but otherwise you would not.

Mr. Barlow: That is about the size of it. If we are going to be meeting in the afternoon, I thought it might be a good idea to try to avoid an afternoon meeting if we could.

Mr. Chairman: I am concerned about whether we really have two hours' worth of discussion ready for tomorrow morning when we do not know what the Senate will do until next week. Would it not be preferable to wait until we know that?

Mr. D. W. Smith: We should try to move the presentation to the morning if we can.

Mr. Chairman: Any other views?

Mr. Mackenzie: We could probably use a conversation. I am not sure it would be two hours' worth, but I have no difficulty if the decision is not to hold the meeting until after the decision in Washington, if that decision does mean we have to take a clear look at which direction our final report takes.

That decision would probably change the focus of some of our recommendations, but I do not feel strongly one way or the other. We may get some idea of just where we are heading; it is one of the things we want to discuss, but I do not think it is essential.

Mr. Lane: I think it will be more useful if we defer our chat until after the vote. Then we will know what we are talking about. I am easy either way, but it would help my travel plans if we could have the group in tomorrow morning. I need to travel tomorrow afternoon.

Mr. Chairman: All right. I take it from what I am hearing that we should direct Mr. Arnott to attempt to contact Mr. Loewen immediately and request once again that he be here in the morning if at all possible. Except for Mr. Barlow, I am hearing that there is no particular value in meeting to discuss our future until next week.

Mr. Barlow: I suggest the same thing.

Mr. Chairman: I hope we will know before we are finished this afternoon what our schedule is tomorrow. It will involve simply hearing from the Canadian Independent Computer Services Association some time tomorrow.

I apologize to Mr. Weinstein for that little bit of housekeeping. We are extremely pleased to have with us this morning the executive director of the Consulting Engineers of Ontario, William Weinstein. As you no doubt know, we have been discussing the bilateral trade option since last July and we have had a lot of discussion about service industries. In passing, we have talked about engineers, among other professions, but this is the first opportunity we will have had to look at your profession, where it stands and where it might go if any barriers were opened up. We are looking forward very much to your presentation this morning. Welcome.

CONSULTING ENGINEERS OF ONTARIO

Mr. Weinstein: Thank you very much, Mr. Chairman, members of the committee, guests, underflowing gallery and anyone else who may listen to this presentation.

The Consulting Engineers of Ontario welcomes and supports the consultative process encouraged by the Premier (Mr. Peterson) in connection with your study on economic affairs, with specific focus on Canada-US trade relations. Our industry is confident that this kind of dialogue with the affected parties must accrue to the benefit of all of Ontario. The process will produce tangible input and, as well, strengthen co-operation among the government, the business community and other sectors of society. The comments and suggestions contained in this brief are therefore presented with that spirit prevailing.

I would like to introduce you to the Consulting Engineers of Ontario to give you a better idea of who we are. The Consulting Engineers of Ontario, the association known as CEO, represents the business interests of some 350 Canadian-owned, independent and Ontario-based engineering firms throughout the province. CEO member firms employ more than 8,000 professional, technical, managerial, administrative and clerical staff. We provide the full range of engineering services to the public and private sectors in Ontario, Canada, the US and throughout the world. The smallest of our members consist of the sole practitioner. The large firms can have many hundreds and, combined with branch operations throughout the country and, indeed, the world, thousands of

employees. These firms are made up of 30 per cent engineering professionals; six per cent other professionals, such as architects, planners and the like; 43 per cent technical staff; and 21 per cent administrative staff.

Consulting engineering plays an important role in the provincial and national economy. In 1984, industry billings amounted to more than $2 billion nationally, of which $1.75 billion was earned domestically and $340 million was earned from the export market. Ontario firms held a significant share of that domestic market, and it is estimated that the export market accruing to our benefit in this province was approximately 30 per cent of the exports, or $100 million.

Generally speaking, consulting engineering is a small business, but consulting engineers face the challenges of the general business community and then some. Consulting engineers are unique in that they provide a service as professionals who must meet the high standards of ethics and performance demanded by their calling, by the public and by legislation. They are precursors and they are absolutely essential to the economic success and stability of our province.

It is unfortunate that of all businesses, consulting engineers are most vulnerable to recessionary cycles. When the cycle is down, firms have to release their technical people and they find it difficult, in some cases impossible, to reobtain them.

Ontario's stake in consulting engineering is quite significant. The importance of consulting engineering to the economy is inversely proportional to its size. It may be well to recall the role that the consulting industry has played and is expected to play in Ontario. It provides employment to many thousands of highly trained professionals, technologists and technicians. It can offer job opportunities to young graduates from universities and colleges, now and in the future. It is essential to all levels of government and to Ontario's diversified manufacturing industry. During periods of growth and expansion, the public and private sectors rely upon consulting engineers for their new systems and facilities to be completed on schedule and within budget.

A major task facing much of Ontario's productive potential is the effective application of new technologies to industrial processes. The knowledge and varied experience of the high-technology state of the art is found principally among consulting engineers. They will play a major part in modernizing Ontario's manufacturing industries.

The export of engineering services results in benefits to the economy as a whole. An increase in the number and scope of international projects undertaken by Ontario consultants will create employment, enhance manufacturing and construction opportunities and improve the balance of payments.

The consulting engineering industry has shown evidence of recovering from the recent recession. The human resource base of many companies has stabilized and their financial capability is gradually improving. Unemployment is ebbing and the industry is now starting to plan ahead with a limited degree of confidence.

The consulting engineering industry operates almost entirely on human effort. People are its primary assets. In fact, you hope the employees who arrive in the morning and leave in the evening will return the next morning, because they are your only asset.

The people in this entrepreneurial sector of the engineering profession are the technological explorers of Ontario. They venture out into the competitive world and plant the banners of our trillium to stake out our credibility and establish our exporting acceptability. If we are acceptable from a technological point of view, our manufactured goods will follow.

Let us take a peek at the Canadian world trade situation. From a credible survey of the top 200 firms exporting consulting engineering services around the world, Canadian firms, with seven per cent of the developing country markets, rank fourth behind US, British and French firms. The next closest competitors, Scandinavia and West Germany, are not far behind, but by any yardstick Canada is performing extremely well in a fiercely competitive marketplace.

10:20 a.m.

Canada's share at the World Bank is increasing, with a 7.4 per cent share and a fourth place ranking in 1984, compared with a 3.4 per cent share and fifth place in 1979. The gap between Canada and France, which is in third place, was less than one per cent in 1984, compared with 13 per cent in 1979.

It is interesting to note, in view of the fact that 80 per cent of all Canadian exports are destined to the US, that only 20 per cent of the total international fees earned by Canadian consulting engineers are derived from services sold to our neighbours to the south. Our firm's principal revenues are earned in Africa, 22 per cent. The US is next, then the Middle East, 14 per cent; the Far East, 12 per cent; and Latin America, 10 per cent. It should also be taken into account that, in constant dollars, our US revenues in 1982 were eight per cent less than they were in 1974. This may indicate that we have been pursuing markets far afield, maybe more successfully.

Since the early 1970s the dominant areas of Canadian expertise recognized as world class covered the following fields: power generation and distribution; plant process, primary and secondary industry; agriculture, fisheries and forestry; and mining and metallurgy.

Power continues to be the number one sector, but its relative share of the market has decreased. I am pleased to see that after my presentation you are going to be talking to one of the premier firms in this province that is very heavily involved in the power field.

It is interesting to note, however, that our engineering work abroad is becoming more diversified. Canadian consultants are succeeding in obtaining contracts in engineering sectors associated with municipal work, transportation, petroleum and natural gas, buildings and various other projects covering such sophisticated fields as integrated regional economic development planning--where Canada excels--and telecommunications. All of the aforementioned specialty sectors are well within the capabilities of Ontario firms, many of which are actively executing contracts in these areas and expanding their markets as well.

Concerning the Ontario International Corp., our association has maintained close liaison with the OIC since its inception, and we are pleased to report that our relations are cordial, mutually supportive and effective. We appreciate the one-window government agency with a service industry export mandate and we trust that this Ontario corporation will survive the review scrutiny currently under way. I am sure it will. It should also be noted that Ontario's export success fund, among other support measures, has been a very

useful strategy and should be continued with expanded funding, wider scope and more flexibility. Consulting engineers do not seek or expect government handouts, but we believe in a shared-risk, shared-cost approach if we are to succeed.

Perhaps we should be discussing the next subject, which I suppose your august body was originally formed to deal with, and that is Canada-US freer trade. I use the term "freer trade" because that is the vernacular we seem to accept.

As has been noted, our service sector has been adventurous in its pursuit of its livelihood. Ontario consulting engineers derived one quarter of their 1984 total revenue from the export of services. In addition, spinoff benefits to industry in our province have been estimated to have exceeded $500 million on these Canadian-designed projects.

In a general sense it follows, therefore, that consulting engineers believe in the principle of an open marketplace and fair competition. Special considerations affect the service sector, however, that merit discussion.

The General Agreement on Tariffs and Trade has focused attention on the multilateral reduction of tariffs associated with manufactured goods and resources. Canada, like the US, is a committed partner to these negotiations, together with a total of 90 countries. It therefore follows that our two nations are already closely linked with regard to liberalized trade and that US protectionism, so greatly feared by many Canadians, is constrained in many sectors by its obligations under GATT.

Trade in services has not yet been addressed by GATT, but it has planned to place it on the agenda in the next negotiating round, which will be deliberate and divergent in opinion, the strong nations most probably supporting the reduction of service trade barriers and the weaker nations standing in opposition. In this arena, as in bilateral talks, Canada will find itself in a much weaker position than the United States.

The Canada-US freer trade talks will probably commence seriously this summer. That depends to a large extent on what the Finance Committee of the Senate decides when it votes today or pretty soon. These talks will occur concurrently with the GATT round, but will gain prominence in Canadian media attention because of the multitude of special interests that will be impacted by these critical agreements.

Let me discuss some of the concerns that we have. Our industry offers certain observations to this select committee to point out our special concerns, which must be addressed in any Canada-US negotitions, if they are to be effective.

Ontario is dependent for its growth and prosperity upon the export of its technology in goods and services. I think we all agree with that. Service industries must remain economically viable at home to permit the necessary investment of time and money required for success in international marketing. Therefore, Ontario public and private entities must use the consulting engineering industry in Ontario, which is as sophisticated as any in the world to a great extent.

Freedom of operation should first be established across provincial boundaries in Canada along the lines practised in Ontario. I think this problem has been addressed previously in your discussions. The present

parochial, protective nontariff barriers require that firms wishing to work in most provinces must establish and staff an office in that jurisdiction. That is fair enough, I suppose, except it dissipates the concentration of specialists and experts that normally would occur in a central office, and negates to an extent the building of world-class firms prepared to compete with the United States and other foreign competition.

A similar situation occurs in the United States where registration is a state matter, as it is in Canada. The lack of reciprocity requires an engineer to apply for licensing, which ofttimes necessitates the writing of examinations and any other barriers that could be placed in the way of freedom of operation.

The lifting of trade barriers, therefore, between Canada and the United States must be done on a fully reciprocal basis with regard to work visas, professional licensing, acceptability of locale of design office, joint ventures, professional liability insurance and statutes of limitations, which vary greatly. In 40 of the US states, the statute of limitations is seven to 10 years beyond the final acceptance of a project; in Ontario, it is in perpetuity. An engineer is responsible for his work for a perpetual period or six years beyond the period at which a problem was discovered. If it is discovered 150 years from now, he is responsible for 156 years, and that accrues to his progeny and his estate.

Mr. Ferraro: Excuse me, may I interrupt for a minute. It accrues to his estate. Does that mean he is personally liable?

Mr. Weinstein: Yes.

Mr. Ferraro: Thank you.

Mr. Weinstein: A significant segment of our resource and manufacturng industry is US-owned. An open trade-in-service border may encourage the use of US consultants, who normally service the head office engineering needs. If a company, for example in California, is used to working with a firm in that area and decides to build a branch-plant operation in Ontario, if it could with no restrictions, it would use the consultants it is accustomed to using. Such action could remove a major list of clients from Canadian consultants.

US companies may tend to abandon or downplay their branch plants in Canada for many reasons. This should not be permitted, except on the bona fide hardship claims determined by a select Canadian agency, regionally subdivided--the west and the Prairies, Ontario and Quebec, the Atlantic provinces. This agency could be known by the acronym, CANT. Perhaps this is facetious, but Canadian Agency for Neighbourly Trust might be an appropriate name.

Tradeoff tactics should be avoided. For example, the United States accepts shoe imports from Canada in exchange for free market access by US consultants to the Canadian market.

10:30 a.m.

Let me summarize briefly. More than 80 per cent of the Canadian consulting firms are small businesses with fewer than 25 employees. Freer trade will assist only those firms with unique skills, but the majority may lose their local markets and lack the financial and human resources to compete

with the United States consulting industry. This suggests that freer trade benefits will accrue to the large, financially powerful firms of both nationalities--a very small number of Canadians against a very large number of Americans.

A freer trade relationship may be viewed by Third Party countries as a single North American market, which could halt Canadian branch-plant investment from such countries as Japan, Korea and the European Economic Community. Why should Hyundai establish a plant in Ontario when it may be more prudent to do so in Birmingham, Alabama, to serve this so-called common market.

Mr. Ferraro: Would the value of the dollar make a difference?

Mr. Weinstein: I do not think that would be a factor because the dollar today, which is beneficial, could considerably swing. Look back 10 years ago. You cannot live on the disparity of the dollar for ever.

There is cause for concern about the possible adverse effects on research and development in Canada , particularly in Ontario, currently paid for by many US-owned or US-controlled subsidiaries, whereas good citizens contribute moneys for research now conducted in other universities by our consulting engineers. US tax benefits and considerations of convenience could siphon off those research grants to the US scientific community and stagnate technology development in Canada. I am expressing this as concern. I am not suggesting these are foregone conclusions, but I am suggesting they merit consideration.

Freer trade may not enhance the position of the majority of consulting engineers in the pursuit of US markets. Through normal entrepreneurial pursuit, we could do reasonably well under the present arrangement in the private US market. It is doubtful that Canadian consultants can crack the government client list in the United States in competition with US consultants unless they have a highly specialized skill, which is not readily available.

Many of our members perceive that a freer trade relationship in our service industry may give rise to greater competition from US firms for work which it is feared may diminish because of a reduced capital spending program by US branch operations, particularly the secondary industrial sector. Such action could negatively impact on our Canadian consulting engineering industry and impinge upon our export success in developing countries. In stating this, I should say that a number of our member firms, many of the larger firms, the highly specialized firms, view freer trade with the US to be a very positive act, long overdue, particularly if they could find ease in obtaining a visa to get into the United States.

We trust the freer trade negotiators will carefully weigh the concerns, both pro and con, of our service industry and other service industries before directing our nation to a possible irrevocable commitment. I pose the question, can we not achieve our goal of fair trade in the USA and all world markets through the General Agreement on Tariffs and Trade? I recognize that may be a slow and painful process, but it is a process we should consider.

To wax poetic, Ontario possesses in its consulting engineering industry a sparkling gem and your historic deliberations and actions must be directed towards enhancing its lustre rather than running the risk of action that may tarnish this provincial jewel. I had to take the opportunity to say that. Thank you very much. I am prepared to discuss this matter further with you and answer any questions you may have.

Mr. Chairman: May there some day be an engineering day in Ontario.

Mr. Weinstein: There may be an engineering year, because next year we are celebrating the 100th anniversary of organized engineering in Canada, and Ontario will participate. I should have clarified the one question with regard to responsibility and perpetuity. A sole practitioner's responsibilities will accrue to the estate. The partnership is a joint and several relationship which will accrue joint and severally to the estate of partners who may be demised. In a sense, the corporation will absolve the individuals concerned. In an indemnification and save-harmless situation, the corporation will be responsible in perpetuity or for at least six years beyond the time in which the potential problem may occur.

Mr. Chairman: That is a concept which is a little foreign to bankers but common to some other professions.

Mr. Mackenzie: I perceive your presentation to be like a number of the more recent presentations we have had, which seem to encourage or take a pro freer-trade stance but then come the reservations and the caveats all the way through it. It is a little difficult really to decide exactly where you are coming down. I take it the numerous reservations that are in your brief are ones that you would want to see protected, if you like, or issues not on the table before we enter into any comprehensive bilateral talks.

Mr. Weinstein: I think that is a fair analysis. You have to recognize in an association of 350 members there are very divergent opinions. We have a firm established in Windsor which has been serving Chrysler and others in the automotive industry for many years. Across the river in Detroit, there are a number of United States firms which are just waiting for someone to cut the ribbon so that they can infuse their skills, perhaps to the disadvantage of that firm in Windsor.

The big automotive companies are accustomed to working with the US firms and, if given a choice, probably would prefer to deal with those firms on a continuing basis. The firm that is fighting for survival has some very good reasons for fearing a free trade relationship. It may put it out of business. It may not have the resources to reverse the field and intrude and displace these large, financially powerful US firms.

On the other hand, there are firms that have great confidence. The other day I got a call from a consulting engineering firm here that is expert in the field of cement technology. It has been conducting seminars in the United States in-house in cement manufacturing firms to assist them in improving their operation, increasing their productivity and what have you, in turn hoping to get some spinoff design assignments from that counselling.

I got a call on Monday asking if there was anything I could do to assist them in stickhandling their way through immigration. There is a protective situation that is prevalent now and they just cannot get into the United States. They are repelled at the airport. They go in with audio-visuals in their briefcases and it is difficult for them to say they are going down for a suntan if they were to misrepresent themselves. I said there was nothing I could do to help as it was an immigration matter. I suggested that perhaps someone who would be desirous of helping and might want to help would be Mr. George MacDonell of the Ontario International Corp., who is doing whatever he can to encourage firms to get into this marketplace. I apologize, Mr. Spectator, for using your name.

If we were to cut off the visa requirement, which is an immigration situation, it would provide a smoother flow and a better potential. If you pick up a Financial Post advertisement on a seminar to be held in Toronto, the list of people giving that seminar will be 75 per cent American. Maybe that is a marketing tool and maybe they will get more people to attend because it is a US name. We have people in Ontario who are every bit as qualified or eminent in many fields and even more so. In the cement technology field, we have A-one, deluxe expertise, and these fellows are stopped at the border.

10:40 a.m.

From their perspective they say, "Sure, free trade, rip that border apart and let us get in and practise our profession." One gets divergent views. For an association, I felt it was most appropriate and realistic to present these divergent views as concerns that must be addressed.

Mr. Mackenzie: I noticed that your exports to the United States were about a third. That in itself I found encouraging because there are some of us at least who think the multilateral trade route would be a better one if it could be done. However, we recognize the difficulties. Is that $100 million in exports in your services to the US a stagnant figure or an increasing one?

Mr. Weinstein: Excuse me, that is $100 million in international revenue, only 20 per cent of which was derived from the US marketplace.

Mr. Mackenzie: I thought it was more than $300 million internationally.

Mr. Weinstein: The Canadian figure was $340 million; $100 million is the Ontario component of that figure.

Mr. Mackenzie: Even at that it is a fairly small figure to the US in view of your overall figure, but is it a figure that is increasing, decreasing or stagnant?

Mr. Weinstein: It is decreasing in constant dollars, as I indicated.

Mr. Mackenzie: It is decreasing.

Mr. Weinstein: Yes. The firm following me can better address that because they found the only way they could really make inroads into the US market, although they were very acceptable technically, was to establish a base of operations in the United States. They have done so and are succeeding in obtaining very lucrative contracts.

The reason the statistics show a fall in constant dollars is that we find it a lot easier to pursue our marketplace in areas where the Export Development Corp. is financing projects or where the Canadian International Development Agency is providing grants. We have not yet, to my knowledge, been granting any money to the United States, although we may have been financing exports to the US through through the EDC. We have been moving into the developed country area, and I think that is the answer.

Mr. Mackenzie: I have just one last question, Mr. Chairman, because I know you wanted to get on. On pages 9 and 10, under the lifting of trade barriers, you talk about that having to be done on a reciprocal basis. I take it this is your version of the level playing field that we need. Specifically, what are you referring to in terms of employment practices and tax agreements as well, but basically employment practices?

Mr. Weinstein: It is an all-encompassing situation that will deal with fringe benefits requirements, unemployment insurance, all of those aspects and the requirements with regard to professional services versus paraprofessional services.

For example, in Ontario the new Professional Engineers Act, which was promulgated on September 1, 1984, makes it possible for nonprofessionals to do professional engineering work provided they are supervised and the responsibility is assumed by a professional, where previously all engineering had to be done by registered professional engineers. Those practices in the United States have to be looked at so that we can compete. If we have to do equivalent work in competition with the US firms using all professionals, our costs are different than if we can mix a professional technical team--a specialist team--to do this work.

There is a whole gamut of employment practices, such as overtime requirements. In Ontario, professionals are not compensated premium time for overtime; technical people are for that period of time over 48 hours. In our industry, we do not have the same kind of operation that the manufacturer of drinking glasses does; they are working on shifts. We have a client and the client says: "I have to get a report out. I need it by Monday morning at 10 o'clock." Immediately you want all your people coming in on Saturday or working nights; so you have a peak period where you are working overtime, and in a given week you may spend 60 hours working on a project. The overtime period is not recognized by many of our clients; so reimbursement is a problem. This eats into the operating costs of an engineering firm.

There is a new act on the books here that I believe you are contemplating, reducing the 48 hours to 44 hours, which will exacerbate it to some extent, and we are not in favour--

Mr. Mackenzie: I hope you know something we do not on that one.

Mr. Weinstein: All right. Perhaps I should not have revealed that.

We made a submission to the Treasurer (Mr. Nixon) in connection with the budget. We picked up in a publication that it was an intention and it may be in the budget. Lord knows, we favour the most liberalized staff employment practices that we possibly can obtain. We are not exploiters of individuals. When we have this crunch of overtime to get us over a peak that a client demands, we as professionals must deliver; what we do is we give people equivalent time off so they can enjoy aspects of life other than engineering.

Mr. Mackenzie: The point I am making, and I am obviously not hiding it, is that one of the concerns we have had expressed by many Canadians is the level playing field that the Americans want if we get involved in a complete free trade deal. That obviously has spilled over in many of the standards and licensing regulations right down to things such as unemployment insurance, Workers' Compensation Board benefits, health and all the rest of it.

Your brief, by saying these are some of the things that have to be looked at in terms of the health of your industry, also underlines, even though it is coming from a Canadian presentation, the concern we have had because of the position on the other side of the issue. Your are clearly accepting that is one of the areas that is going to be up for grabs.

Mr. Weinstein: There has to be a parity consideration in that area, and I recognize the sensitivities with regard to our health plan situation

here in the province. With regard to tax agreements, we have a federal tax agreement; but, for example, if you work in New York state, you pay a US federal tax, a New York state tax and a New York City tax. If somebody works in Ontario, I do not know how they are forced into our tax structure. However, it is one of the considerations that has to be put on this level playing field, as you so colourfully put it. We are suggesting that whatever is done must be fair, equitable and reciprocal.

Mr. Ferraro: I will not embarrass you by asking you how much George is paying you to plug Ontario International Corp. or the export success fund, but I do have two questions. First, could you expand and specifically indicate to me which provinces are either exempt or have the parochial requirement where you have to have an office?

Mr. Weinstein: It is like a desert: the sands shift. You may recall we were getting into the terminology "megaproject," which was referring to a couple of provinces; there were appropriate bumper stickers discussed, which I will not name at the present time. Alberta was a province that saw a tremendous amount of work and was attempting to reserve the work, to the extent that it could, for its own firms, consultants and so forth. British Columbia was involved in a similar situation when it looked like every ounce of coal was going to be stripped, levelling the Rocky Mountains. That has since subsided.

It was very difficult for firms to get themselves entrenched and be considered eligible for local work. Ontario has never done that. In fact, the Association of Professional Engineers of Ontario is reasonably liberal in issuing licences on a temporary or permanent basis to people who are resident in this province or to people working outside the province to work in the province.

Recently there was a document from the Ministry of Economic Development of British Columbia which specifically stated that work on a preferential basis would be given to bona fide consulting engineering firms in the province. We got hold of that, and we wrote a paper to our national association and protested that. We did not feel that anything would be gained by that kind of exclusive parochialism, and we (inaudible) to protest to the Premier and asked him to impose that on other consultants; it is just not right and not fair.

10:50 a.m.

They backed down. Through our association in Ontario, we got a letter back saying we had misinterpreted the situation and it really was not a discriminatory statement; it merely indicated that, where practicable, local firms would get preference. That is a paradoxical statement. We always say that if a client in a particular area has a consultant who is eminently well qualified to do his work, there is no reason why the client cannot negotiate a contract with that firm to undertake the work. But to make a policy out of such a thing is an absurdity, because you are just removing from the benefit of the public at large the kind of professional services they are entitled to receive.

To answer your question, that is the situation. To carry it a little further, internationally--the firm of Acres is in a much better position than I, although I have worked pretty much all over the world--if you travel in Brazil and undertake a contract there, by law it is necessary to joint venture with a Brazilian firm, and 51 per cent of that has to be Brazilian. The only

way you can protect yourself from the professional liability point of view, because the international lending agencies demand that a world-class developed country firm does the work, is that by agreement with the joint venture, you say that you, the Canadian firm, will appoint the project manager, who will have full authority to hire and remove anybody from the project subject to his discretion. At least you have some protection over your professional liability. Brazil makes it mandatory that 51 per cent of a joint venture and the monetary benefits thereof are Brazilian.

Mr. Ferraro: Is it safe to surmise in that scenario that you would probably do 90 per cent of the work and get 49 per cent of the action?

Mr. Weinstein: You would do the conceptual work, which is usually where the engineering knowhow is most beneficially utilized; then you would use the local consultants, who are very competent in structural, mechanical and electrical design, to do some detailing under your review and scrutiny.

Mr. Ferraro: I am not sure I heard an answer to my first question. Are there provinces in Canada where Ontario engineers cannot go in and work without having an office?

Mr. Weinstein: Of the 10 provinces, probably about six provinces would fall into that category. In fact, I can go further; within Ontario, there are certain regions within the province where you cannot work unless you have a local office established. Therefore, the colloquialism extends within our own borders.

Mr. Ferraro: Where would that be in Ontario?

Mr. Weinstein: If you want to do work in the St. Catharines-Niagara region, for example, particularly in connection with municipal work--there are 13 municipalities in that region--you pretty much have to have an office in St. Catharines, in Niagara Falls, in Welland or in that area.

Mr. Ferraro: What has your association done about that?

Mr. Weinstein: I have addressed the 13 municipalities and discussed that with them. Their feeling is that they want people to be locally available. In some cases, they have accepted contact offices, where technical work is supported from head office, so that some of the work can be done elsewhere.

That is pretty much the reality of the situation in the industry. It is not as though you are providing dentistry or medical services where you pretty well have to be on board. You are providing professional services, and the most economic way to do it is where all your skills are rather than trying to duplicate skills in many offices. However, that is prevalent.

Mr. Ferraro: My final question is, has the Canadian Council of Professional Engineers taken a position on the proposed freer or free trade arrangement?

Mr. Weinstein: The Association of Consulting Engineers of Canada has established a committee which is reviewing a position on free trade in connection with its relationships with the federal government. Jack Baker, who is a very active member of its export committee, may very well be personally involved in some of those deliberations.

Interjection.

Mr. Weinstein: I am advised he is not. But ACEC, as it is known, has not yet come out with a paper. We presented our brief to them for what benefit it might be and made ourselves available to discuss the matter with them. That was accepted.

I want you to know that Ontario is not viewed as an upstart. Ontario is viewed as a responsible, mature government seeking the truth in connection with establishing a free trade relationship. You are to be admired for the work you are doing. The Premier (Mr. Peterson) has made a very good image as far as his own courage and credibility are concerned.

Mr. Chairman: We all agree with that. No member of the committee would disagree with that.

Interjections.

Mr. Lane: First, Mr. Weinstein, I want to congratulate you on the last paragraph of your submission to us. It is refreshing to think that somebody is so dedicated to one profession that he can refer to it as a sparkling gem and a provincial jewel. If we were all as encouraged about our professions, perhaps we would have a positive (inaudible) than what we have. That was quite a good note to wind up on.

Mr. Mackenzie brought this up, but I want to go a little further with it. On page 5, in the third paragraph, you mention that about 80 per cent of all Canada's exports are to the United States but that only 20 per cent of the total international fees earned by the engineers is derived from services to our neighbours to the south. You mentioned part of the problem in your answer to Mr. Mackenzie. Are there some markets that are more competitive for you? Is it more challenging to go farther abroad? What does that percentage reflect? If a freer trade agreement were to be negotiated, would that percentage likely go up or down?

Mr. Weinstein: I can only speculate. We have not analysed the significance of that statistic. We can only say that Canadian firms, generally speaking, are somewhat introspective. When you deal in the international field, you find that the US capabilities in the engineering area are looked upon as being the most desirable in the world. In spite of the political problems, people look for US technical expertise. Canadians capitalize on that. Where there is a dominance of US involvement in a Third World, developing country which reaches the point of concern and that country still wants North American technology, its managerial skills and its engineering skills, there is only one place it can get it, and that is from Canada. We sell on that basis. We hold ourselves as being equivalent to the US in a technological sense, and as a result, our acceptability in the world market, as you can see from the other statistics, is very high.

11 a.m.

The fact that we are perhaps reticent about getting into the US marketplace probably stems from the establishment of a very large number of extremely capable engineering firms. The US has a highly developed and organized consulting engineering sector. That sector is so highly organized--and we are flattered by being invited to speak to this august body--that the American Consulting Engineers Council is sought for its advice by various congressional committees on a continuing basis. They lobby pretty strongly,

because in the US lobbying is a profession. They achieved a goal in getting the US, recognizing their credibility, to make it illegal on government contracts to call for competitive bids for engineering work. Under US law, the Brooks act, you issue your assignments on the basis of competence and negotiate a contract on the basis of fair and equitable payment.

It is a highly organized profession; it is highly skilled, it is well established, it is diverse, and it is located all over the US. It is very difficult for a Canadian to come in and supplant an organization unless one has very special skills that are not prevalent in the US. As I said, we do; we are expert in the power field, in pulp and paper, in fisheries, in agriculture and in mining and metallurgy, where we are the best in the world. In some of the secondary industrial fields, we are world-class. Only certain firms have access to that market.

If you go to Nigeria, you can design a sewage treatment plant, a municipal building, a school or anything and you are acceptable. You have acknowledged expertise of a very credible nature. You are highly regarded. Therefore, it is less costly, and there is a higher success ratio. If we submit five proposals in Africa, chances are we will get one. If we submit five proposals in the US in competition with US firms, we are not sure; it is very difficult. As a result, we have concentrated our efforts in the developing world, and perhaps that is the market we should be looking at continually.

It may be that free trade could conceivably result in benefits for certain firms in the US and devastate or decimate--and I use the term "decimate" in the sense of reducing by 10 per cent--our industry in Ontario, which would impact negatively on the export of foreign services. There might be a tradeoff; we might get a little more out of the US in certain areas and lose a lot in the international market.

Mr. Chairman: Mr. Weinstein, on page 9 of your brief, you mention that registration is a state matter in the US and that a lack of reciprocity requires an engineer to apply for licensing, oftentimes necessitating the writing of examinations. Is there any value in having different examinations in different jurisdictions in North America?

Mr. Weinstein: If you were an engineer in the state of New York, and one of your clients was building a facility in Ontario, if you had a professional engineering licence in the state of New York and you were the engineer for this client, all you would have to do would be to make application to Ontario and your licence in New York would be reciprocated. You would be issued a temporary licence to perform your function in this province. It does not work the other way.

We engineers in Canada have gone to the same universities. We have read the same books; we have written some of them. We have the same graduate degrees. We have the same capabilities. We have the same, and in many cases maybe a higher, level of professional ethics. Our achievements stand before us. Under professional liability, litigation against Canadian engineers is lesser on a per capita basis than in the US. Our performance record is very good. However, there are protective, nontariff barriers that exist in 50 states. I happen to have a licence in Missouri. There is reciprocity with about 20 other states that recognize the Missouri licence; so I can practise in 20 states in the US. However, I may not be able to practise in the states that I want to.

When I talk about professional licensing, it is unfair if you have a free trade situation based on a federal agreement, where there is freedom of access across the border and a visa is available, when there are 50 other jurisdictions that control what you can do; it is not a federal decision. The service industry is a very special industry in that regard when you are dealing with the professions. It applies to the medical profession, the legal profession and others.

Mr. Chairman: In my profession, which is law, there are obvious problems that need to be addressed because of different bodies of law in different jurisdictions. From what you are saying, I gather that does not exist in engineering, or might there be problems in some areas with termites that might not exist elsewhere or snow loads on roofs? Is it a waste of time to have people writing exams?

Mr. Weinstein: Codes are printed documents. Any engineer who undertakes the responsibility for design of a facility assumes the responsibility and the liability for satisfying himself that his design meets the codes. Codes are printed. If you work in the city of New York, there is a New York City building code. If you are designing a bridge, the live load requirement for the bridge is stated in the building code or in a bridge code that is referred to.

The practice or the art of engineering is the utilization of scientific data and other data available to you which are commonly practised in all jurisdictions. The fellow in New York who is permitted to practise in Ontario does not know the city of Toronto building code, but he knows where to get it and he knows when he is designing to a certain criteria that he must adhere to that code. Therefore, those aspects do not apply.

Occasionally, if somebody who is not licensed in another jurisdiction comes to Ontario seeking a licence, he may be asked to write exams. Usually, his professional engineering licence gives reciprocity in that province. I suggest that if we are going to establish a relationship on the level playing field that you talk about, let us do it on a reciprocal basis.

Mr. Chairman: Would a professional engineering licence from any state or province permit him to practise in Ontario?

Mr. Weinstein: No. He must obtain a licence from the Association of Professional Engineers of Ontario, which is the licensing body established by the Legislature of Ontario. That licensing body must assure the people of Ontario that the applicant meets all the requirements with regard to competence, ethics and so forth. Their judgement determines whether he complies with those requirements. Generally, if somebody has a professional engineering licence in New York state, it will probably qualify him for a licence issued by Ontario. This happens quite frequently.

Mr. Chairman: You are saying that the standards are almost identical everywhere. If you can confirm that he has a licence to practise in another state or province, would he almost automatically receive that licence in Ontario?

Mr. Weinstein: Generally speaking. He may be asked to submit evidence of a degree from an accredited university. However, fundamentally, if you are licensed and issued a certificate, you can send a certified photocopy of your certificate to the registrar of the Association of Professional Engineers of Ontario. That would go in your file, which builds up. The admissions committee and the registrar will evaluate it.

I do not say this in a demeaning sense, but I would say it is easy for a registered professional engineer in the United States to be equally recognized in most Canadian provinces.

Mr. Chairman: Thank you very much. This has been very helpful. Your brief has been perhaps more cautious than I expected. We appreciate that. Good wishes to a gem of a profession from a gem of a committee set up by a gem of a government.

Mr. Baker, we have been hearing a lot about you this morning. If you would like to take a seat, we have your presentation before us. Can you carry on? Who is with you?

11:10 a.m.

ACRES INTERNATIONAL LTD.

Mr. Baker: This is Mr. Malcom Martini who is head of our economics and planning department. We thought it would be appropriate if he came along.

I hope we do not take the lustre off of these proceedings. It is ironic that I follow in the footsteps of Bill Weinstein. He was my first boss on my first overseas assignment in 1970. Any errors and omissions obviously are his fault, based on past errant tutelage.

It is a pleasure to be here. Acres welcomes the opportunity to consult with the select committee on economic affairs on the issue of Canada-United States trade relations. In general, we support the position of our industry as presented in the previous brief by the Consulting Engineers of Ontario of which we have been a member for many years. We would like, however, to present to your our views on this matter, as we believe that Acres experience in the national, United States and international consulting markets could be of interest to the committee.

Acres is one of Canada's larger consulting engineering firms. It is a diversified, Canadian-owned company offering a full range of consulting services in power and energy, water resources, the mining and steel industries, and transportation. It employs some 1000 people in nine offices across Canada, two in the United States and in project offices around the world. About half of the company's employees are based in Ontario in its offices in Niagara Falls, Burlington and Toronto.

Acres is an international company exporting largely Canadian and mostly Ontarian professional skills and technology throughout Canada and the world. In 1985, we performed more than $22 million worth of services in the United States and in Asia, Africa, Latin America and the Middle East. In Canada, you probably know us best for our work in the hydroelectric field. Our major porject achievements include Churchill Falls in Labrador, a series of hydroelectric projects on the Nelson River in Manitoba and the Mica dam in British Columbia. Closer to home, we engineered the Arnprior hydroelectric generating station, have for many years provided engineering services to Dofasco in Hamilton and had a leading role at Ontario Hydro's Atikokan thermal generating station.

I will relate how we responded to the market forces and nontariff barriers over the past years. Acres was founded in 1926 and was largely an Ontario company until the late 1950s and early 1960s. Offices were established in other jurisdictions when warranted by involvement in major projects. This

approach was ued in other Canadian provinces, the United States and in international markets.

Major barriers to entry to markets both in the rest of Canada and the United States became a problem in the 1960s and Acres had to respond. We now have offices in Vancouver, Calgary, Winnipeg, Halifax, Sydney and St. John's. These are sales and operating offices which attempt to maximize the local content of engineering and economic and planning assignments but which can, if necessary, draw upon the total technical resources of the company.

Increasing nationalistic sentiments in the United States, state buy-American policies and more stringent professional licensing requirements by state authorities provided incentive for Acres to establish operations in the United States market. A driving factor was the desire of clients to have American citizens working on projects in the United States. These offices have maintained a working relationship with our Canadian offices, but in the last few years more stringent application of visa requirements has restricted the previously relatively free movement of staff across the border and thereby limited access to existing and prospective clients. Similarly, the application of buy-American policies in the public and private sectors has become more strict in recent years.

Acres has also responded to the market conditions in the 1960s and 1970s by developing a major international consulting engineering practice. Since our first international contract, a Colombo plan financed hydroelectric project in Pakistan, we have been involved in projects in more than 60 countries. We now concentrate our activities in Africa, southeast Asia, south Asia and the Middle East. These assignments are staffed largely from our Ontario offices, and we are proud of our role in exporting Ontario professional skills and technology.

Acres's response to the political and economic forces working in its markets has impacted on our cost-effectiveness and hence our competitive position in international markets. With changing technology it is difficult to be precise about optimal sizes for consulting engineering offices. However, we can say with certainty that in an entirely free market in Canada and the United States our operating structure would be much different and more cost-effective. We need look no farther than Quebec, whose major consulting enginering firms have had sole access to a continual flow of large-scale public sector work, to see the impact of economies of scale from profits on export sales.

I should add that there was a conscious policy decision on the part of the government of Quebec to contract out work to private firms as opposed to doing it in-house, and we are most pleased that a similar approach is being adopted in Ontario.

Acres and other Ontario-based consulting firms must continue to be cost-effective in order to compete in the international market. The international market is highly competitive and competition is increasing. Foreign consulting firms often get better government financial support when they work overseas. Increasingly, we are seeing competition from newly industrialized countries, such as India, Brazil and South Korea.

Acres and free trade: I have dealt at some length with the evolution of Acres to demonstrate the flexibility that we and other consulting firms have shown in dealing with our marketing environment. The CEO brief, quite correctly, emphasizes the need for governments in Canada to reduce nontariff

barriers in services across provincial boundaries. We agree with the recommendation that trade barriers be reduced on a reciprocal basis in Canada and the United States in matters such as work visas, professional licensing, etc.

Acres is competitive in the United States in terms of quality and cost, and we would value highly unhindered access to bids for contracts on large-scale projects within our technical specialty areas. We would respond to that challenge, and we believe Acres and Ontario would benefit.

We recognize, however, that the legal and political realities on both sides of the border would make it extremely difficult, if not impossible, to end nontariff barriers in the consulting services industry within two federal and 60 state-provincial jurisdictions. Free trade in services is a worthwhile, but perhaps impossible, goal. Action by the government of Ontario to secure more direct access to markets in the rest of Canada for consulting engineering firms and to promote contracting out by our provincial government departments and quasi-government organizations would be more easily achievable and would provide the base load of fees that would allow us to expand our international markets, thereby bringing greater benefit to Ontario.

In summary, the points we would like to leave with you are as follows:

(a) The market environment for consulting engineering services has changed dramatically in the past 15 to 20 years, and Acres has responded to these changes by establishing sales and operating offices in different jurisdictions to gain market access.

(b) Nontariff barriers to trade in services across boundaries within Canada, and between Canada and the United States, have been increasing in recent years.

11:20 a.m.

(c) To remain competitive in overseas markets, Acres must provide technologically advanced services in a cost-effective manner.

(d) We believe true free trade would be good for Acres but this objective will, in practice, be impossible to achieve.

(e) Freer access to markets in the rest of Canada and more contracting-out by government organizations may be more easily achievable objectives.

(f) With freer access to these markets, Acres operations would lead to increased exports and greater benefits for Ontario.

I would be very happy to answer any questions.

Mr. Chairman: Once again you have emphasized the problems the engineering profession obviously faces in Ontario in getting free access to the Canadian market.

Mr. Lane: On the bottom of page 2, you talk about major barriers in getting work in the rest of Canada and you were forced to expand your company to Vancouver, Calgary, Winnipeg, Halifax, etc. Was that good for your company? Apparently, you were forced to do it because of barriers that created problems.

Mr. Baker: In the final analysis it has turned out to be a positive thing in the sense that we are operating in those markets and operating reasonably effectively. We should distinguish between legitimate market forces that drive a company to set up offices either in other provinces in Canada or within Ontario--we have three offices within an 80-mile stretch around the end of Lake Ontario--and what we will call nonmarket forces or perhaps political forces that drive a company to set up offices so it can have access to those markets. For the most part, our response to the market has been of the latter variety. We have been driven by the problem of access to set up offices in those jurisdictions. A somewhat similar problem would apply in the United States.

Mr. Lane: I noticed in a speech the Prime Minister made in Toronto last night he was coming down on the Premiers to work to get rid of those barriers. If that were to happen, would that be advantageous to your type of operation?

Mr. Baker: I believe it would be advantageous. Perhaps that would not mean we would greatly change the structure of our offices. We would probably move more to a system that maintains sales offices in other jurisdictions and more movement of bulk engineering back into one physical facility. There are certain economies of scale attached to that.

Mr. Lane: A little earlier on page 2, you give a global figure, "In 1985 we performed $22 million of services to the United States, Asia, Africa, Latin America and the Middle East." Have you any percentages as to--

Mr. Baker: About 50 per cent of that would be in the United States. To elaborate on that a bit, we have a major office in Buffalo, New York, only 20 miles from our major technical office, which is located in Niagara Falls.

Mr. Lane: In the second paragraph on page 4, you say, "We can say with certainty that in an entirely free market in Canada and the United States our operating structure would be much different and more cost-effective." Would you like to enlarge a bit on that quote?

Mr. Baker: Just to elaborate on the point I made earlier, I will use the example of how we operated in the 1950s and 1960s. Up until the beginning of the 1960s, we did all of the major hydroelectric projects in Quebec. The Churchill Falls project, which is in Labrador, was staffed by people from an office of about 150 people in Montreal, but the bulk of the staff were located in Ontario. With the change in the environment, Acres response was to close that office in Montreal.

I suppose if we had free access to that market and complete access to other markets, there would be a tendency to bring more services of a bulk nature back to a plant in Ontario that could accommodate them. There would be certain economies of scale gained through that process, whether that be through having fewer receptionists and telephone switchboards or better use of our computer-aided design facilities.

We believe there are certain economies of scale and we have suffered in terms of cost effectiveness as a result. On the other side of the ledger, it is worth while having a marketing presence in various jurisdictions. There is a tradeoff there, but we feel there would be economies of scale gained through that process.

That extends into international markets as well. Mr. Weinstein's point

about other countries forcing joint ventures with firms is exactly the same point, only in a different jurisdiction. We are being forced more and more to do work in the overseas country in which we have the contract.

Mr. Chairman: Mr. Mackenzie, Mr. Sheppard and Mr. Smith.

Mr. Mackenzie: I wonder if you agree with the previous presenter's comments that the perceived skills of the US consulting engineers and their firms are a bit of a barrier to increased penetration or Canadian success in the US market as against some of the other countries.

Mr. Baker: I do not agree entirely with that statement. I refer back to my earlier comment that there are sets of markets within this overall market of consulting engineering services. In Canada, particularly those companies that are dealing with municipal engineering or structural engineering, or those that are industry specific, the automobile industry and so on, are located close to their potential clients. That is a very understandable and desirable market force.

On the other hand, for megaprojects in our area of hydroelectric--and they do not have to be mega, they can be small hydro, medium-scale hydro and large-scale hydro--we feel we are among the leading companies in the world, without question. We feel that is recognized by clients in underdeveloped countries. We feel on major hydro projects we can compete with anybody in the world.

Mr. Mackenzie: There you might get the one out of five.

Mr. Baker: Yes. In fact, through our Buffalo office and using some of our Canadian staff, we beat out the best in the world in Alaska five years ago in a very major hydro project for the feasibility of it. Unfortunately in the big action, possibly because of buy-US policies, we were not successful in the detailed design.

Mr. Mackenzie: I can see how easier visa requirements and more open operation would assist a company such as yours in the service sector. Can you give us any hard evidence--I guess that is an impossibility--but any numbers in regard to what the potential might be in the way of increased jobs in a firm such as yours if that was opened up? You will recognize, once again, not hiding it, that our real problem is we can identify the losses. Nobody as yet has been able to give us the pluses. I thought we had one in the cement industry and that was shot down yesterday.

Mr. Baker: It is a very difficult question to answer. To be frank, the international consulting engineering industry is in a state of transition. We have come through a tough period, we have stabilized and we are starting to grow again. Many of the American firms have had the same problems. It is difficult to factor out that underlying trend. On the whole, we would have to say it would be positive, but I cannot give figures of what the benefits might be. Do you have a comment on that, Malcolm?

11:30 a.m.

Mr. Martini: There is one thought I have on that. A lot of the discussion on free trade has talked about potential losses, but as Jack was trying to point out, it is a highly competitive industry. Competition means two things. The first is you can be beaten out, but the second is if you stay on top of the markets, you will maintain or increase your shares. We feel in

the international and highly specialized areas where we operate, we have to be in a position to improve our technology and to have the bucks to improve our status in the world so we can maintain our edge throughout the world.

We have an edge over the Americans in wage rates and some edges in skills. We do not have edges over the Indians, the South Koreans or the Brazilians in wage rates, but we do have edges in skills. We will have to develop our skills. The way we develop our skills is to do more work, penetrate the markets more deeply and develop the technology to a greater extent.

There is another way of looking at it. If we do not have greater access, almost by definition we could slip backwards. To some extent, you can regard the failure to increase access as a risk that you will not secure access in the future.

Mr. Mackenzie: Is your firm one that does a little more? I noticed you commented on the $22 million in export sales. Export sales seem to be a small percentage of the business generally. Do you do a little more work in export than you do in domestic? What is your average on that?

Mr. Baker: During the past 10 years, on average, it is probably one third, one third and one third for Canada, US and offshore.

Mr. Mackenzie: Do you do more exporting than the industry in general?

Mr. Baker: Yes, our market share is quite significant relative to the rest of the industry. As a strategy, we believe we have to operate in international markets. We have shied away from a shotgun approach and we are attempting more and more to concentrate our efforts in certain geographic areas of the world. We see that as an increasing part of our business.

Mr. Mackenzie: I wish you well on that. I have one final point. In the course of our hearings, services are seen by some as a major target of the US. At least that seems to be a perception; we have not had a lot of hard evidence on it. I guess that means there are some who fear what may happen to us in services generally. I take it from your brief you do not share the perception that this is an area where we are likely to be under fire in an open border situation, at least in your service industry.

Mr. Baker: I would define it even more narrowly than that. I would define it from Acres' perspective because we have been fortunate enough to grow to a size where we have achieved a certain threshold with respect to economies of scale and so on. We have also had a market niche, particularly in the hydroelectric market.

We are confident that an opening up of the market or a reduction in the barriers would lead to growth for our company. I do not want to generalize and say that is true for the entire industry. Obviously, some people would be hurt by it. If one looks at the industry as a whole during the past four or five years, a fairly major rationalization has been going on. That rationalization is going to continue and be driven by market forces. This may hurt some of the smaller companies. Opening up the border might exacerbate that tendency and cause it to occur more rapidly. Do you agree with that, Malcolm?

Mr. Martini: Yes, I think so.

Mr. Baker: As an addendum to that, in the long run, it might be a good thing from the industry's perspective.

Mr. Sheppard: Mr. Baker, is a lack of engineering work in Ontario one of the reasons you went to the offshore countries, and is a new challenge the other reason?

Mr. Baker: Certainly, there is the challenge. I am an economist by profession and I have always been amazed at how the word "challenge" affects and drives engineers. It is exotic to work overseas; people enjoy it. There are new technical problems to overcome. It does put us on the edge, and we have to maintain our position there, so that is certainly part of it.

I can assure you that as far as allocating our business development budgets is concerned, we look very hard at the costs of doing business in international markets. These costs are increasing. If we had our druthers, from a pure profit perspective, it would probably be better to stay at home, but we recognize there is a cyclical phenomenon working and we have to take that into account. Some markets overseas may be buoyant when markets here are dead, so we have to offset those risks. The desire to go overseas is to find new markets to offset the cyclical process as well as the technical challenges.

Mr. Sheppard: Now you employ 1,000 people. Does that fluctuate during the season?

Mr. Baker: During the season?

Mr. Sheppard: Yes. Do you lay off men in the slow time?

Mr. Baker: It is cyclical. At our peak back in the early 1980s when everybody was dreaming of energy booms, we were at about 1,450. We have gone down to as low as 850--I am speaking of a recent period--and we are now up to approximately 1,000. It is fair to say that our general policy has been to maintain as much of our technical capability as we can. Our employment fluctuations are probably less on a relative basis than many other large companies. I would like to think we have maintained the technical capability of the company through this down time.

Mr. Sheppard: I have one last question. With new recruits coming out of school all the time and your competition being keener, are we educating too many engineers today?

Mr. Baker: I do not know whether I can make a blanket statement on that. We very seldom recruit directly from the universities. In order to sell a body to client, we have to be able to demonstrate that the person has worked in his profession effectively, so the normal entry point into Acres would be between the ages of 28 and 40. Our personnel people feel it is quite possible there may be a shortage within the next 10 years.

That is just one opinion. In a sense it is a very fractionated market. Although we may educate a lot of engineers in total, the number that might be germane to our industry is not that great.

Mr. Sheppard: The reason I ask is statistics say we are going to be short of teachers in eight or nine years, and it probably has been up and down in your profession the same as it has in any other profession.

Mr. Baker: It seems to me the demographics say that. I am rather optimistic about my daughters. They are going to be entering the market at the right time.

Mr. D. W. Smith: Mr. Baker, you mentioned on page 4 of your presentation that foreign consulting firms receive better government financial assistance. How do the governments give them that assistance? Do they have an upfront way? What amounts do they give companies from their countries to compete against you?

11:40 a.m.

Mr. Baker: The assistance is given in a variety of forms. If we bear in mind that consulting services are normally a maximum of eight to 10 per cent of the whole cost of the project, the biggest carrot is subsidized financing. There has been considerable discussion internationally about trade mixes and all that kind of thing. That is certainly one carrot that is offered.

A more direct form of assistance is taxation breaks for employees who are working abroad on a long term basis. Indeed, in many countries, particularly France and Britain, people who go overseas on a short-term basis in a sense gain points in their personal taxation. That all flows back to the company's bottom line because it means there is no requirement to give bonuses or extra incentives to get people to go overseas. In other words, that is taken on by the government as opposed to internalizing it within the companies.

Mr. D. W. Smith: You mentioned three countries, India, Brazil and South Korea. Of those three countries, which do you see as the most up and coming? Which is the greatest challenge to you in your profession and perhaps to a lot of professions in the free world?

Mr. Baker: This is a highly personalized view. With the reduction in the price of energy, I believe the Brazilian economy is going to take off like a rocket. Brazil has been pushing its consulting engineers overseas during the past five to 10 years. I think that tendency will continue. Brazil has good engineers. It has a good level of technical competence, and perhaps most important, it is a constant marketer. It does very well in marketing. It is quite dominant and active in the rest of Latin America now and is doing very well down there. It has been trying to break into the Asian market. From a purely selfish perspective, we can say we hope it does not. That would be number one. Over the much longer term, India could be, because it has a tremendous base of highly skilled, educated engineers.

Mr. D. W. Smith: In a country like Brazil, do those professional people get their education in Brazil or do they travel to the United States or England?

Mr. Baker: It is a mix of both. You will find very good people who have done an undergraduate degree in a good Brazilian university coming to the United States, Canada or elsewhere to do a masters and then throw in an MBA on top of it.

Mr. Martini: Can I just add to that? We have had a chance to work with some of these engineering firms. In particular, one of our staff was working with Hyundai. I think you know it makes cars. Hyundai is a phenomenal group. If you unleash the potential of those groups, already highly trained, using the most advanced techniques and also motivated in a marvellous way in hours of work, you find they are going to be tough competition. No doubt we will have to work hard to maintain our edge.

Mr. Baker: Just to add to that point, the interesting thing is that the technology with respect to straight personal computers and large

main-frame computers, computer-aided design and draughting and so on, is accessible to everybody now. In the old days when we were doing assignments in underdeveloped countries, we were saying we had the leading technology and an array with which they could not catch up. They did not have the hardware. Now they are not going to go through the same process we went through. They can leapfrog it very easily. You now go into clients' offices in underdeveloped countries where they are all cluttered up and they still have the basics of the technology there. They want it and they want you to be very conversant with it.

There has been a move towards more capital intensity. In other words, we are using more equipment per man-hour of engineering services provided.

Mr. D. W. Smith: I have one short question. This may be in a little lighter vein, but I am going to ask it anyway. Do you work in any Communist countries? I read an article in the paper not quite two weeks ago that said that engineers in Russia are in trouble. I think they were building an underground railroad and they did not reinforce it well enough so now the buildings are starting to lean and topple. Do you work or have you worked in Communist countries?

Mr. Baker: We have been on some projects. To the best of my knowledge, we have not worked directly in a Communist country. However, we are part of a Japanese consortium that is bidding on the Sakhalin Islands natural gas field. That will be developed under the Russian regime. It is an indirect potential involvement.

Russian engineers work overseas and we run into them. When they are working overseas, it is on grant projects financed by their government.

Mr. D. W. Smith: Do you not feel a lot of competition from them?

Mr. Baker: Only in certain countries that are part of the Communist bloc.

Mr. Bossy: I have a short question. In your discussion here and in the last questions especially, we hear so much about the potential competition from Brazil and other countries, but we are dealing here with what the competition will be if we open up trade with the United States. This is what we are really concerned with. How competitive will you be with the United States when it is already recognized as being highly sophisticated and having top engineers? Here is a firm from Ontario trying to compete against these biggies in the United States. We are already admitting that real expertise exists in these other countries which makes it tough. What is it going to do if we cut that ribbon? Where do you fall in line? Even though you have an office in Buffalo, it is really a token gesture to make it legitimate that you are in the United States. How far can you go in the United States and compete with these big firms?

Mr. Baker: We believe we could compete quite effectively. The office in Buffalo is far from a token office. It now has about 150 people and has had upwards of 250 people. It is quite a significant office.

The current prevailing exchange rate, plus the difference in social overhead costs, suggests that in recent assignments where we have had access and have been successful, in some cases our costs are about 50 per cent compared to similar firms in the United States.

Price competition is becoming more of a factor in international markets. If we are bidding head to head with a US firm, we have no problem. I would say 90 per cent of the time we can beat them on cost, unless we overestimate the job. Where we do have problems with cost is from the newly industrializing countries. I feel quite strongly that we can compete on a cost basis with the United States.

Mr. Martini: That takes us back to our first point. To hone our skills so we can continue to offer an edge, we have to compete with the United States. We are in the US market so we can maintain the edge when we are competing in the Third World. It is a kind of game we are playing. Nevertheless we have to expand and improve the technology to improve access to the US market so we can compete with the people who are up and coming and maintain our edge on them. One leads to the other.

Mr. Bossy: We know that pretty well all megaprojects, especially in the field you are pursuing, are tremendously influenced by state or federal government. We know an attitude of protectionism exists in the United States and it is coming out more and more every day. Will that protectionism be eased if we open up? Canada is really a bother to the United States more than anything even though we trade quite a bit. Mulroney said the United States is an elephant that rolls over on a mouse and we are but a mouse compared to the elephant next door.

As far as getting in on all these major opportunities that should be there, the United States is protected by its state and federal governments. We have it here with the provinces and the federal government, and they have it there. What chance do you have against that competition?

Mr. Baker: In a sense, I think you have summarized our position. Given the complexities of the two constitutions that apply in Canada and the United States, the fact that you have 60 jurisdictions that would have to agree to make the playing field level in a legalistic sense at least, we have a great deal of difficulty with seeing that happening. Even if that were possible, how do you eventually get it through people's minds that this company is not just a bunch of Canucks coming down here to steal their market. We feel that sentiment has affected our US operations. There is no question about it.

Mr. Bossy: There is a lot of that and I am not going to go on any further except to make a comment. When we visited the state legislature in Sacramento, we walked in and introduced ourselves to the governor's receptionist. We said we were from the Legislature of Ontario and her first impression was that we were from Ontario county. We then had to follow up by saying, "Ontario, Canada." Then we were asked, "Where is Ontario, Canada?" This happened right in the governor's office. We are really not too well recognized down there.

Mr. Baker: Did she work for Mr. Reagan previously?

Interjections.

Mr. Bossy: I was totally insulted when that happened.

Mr. Chairman: I am afraid that is all too typical. Are there any other questions?

Thank you very much, gentlemen. It has been extremely helpful. We need

all the help we can get, particularly in looking at the service industries.

Mr. Baker: We would be happy to do anything else, Mr. Chairman. Although it might be difficult to break out specific numbers, we could give some further thought to that question, if you so wish.

Mr. Chairman: Thank you. We appreciate it.

Before we break, I have three housekeeping matters to discuss off the record.

The committee continued in camera at 11:53 a.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, APRIL 17, 1986

Afternoon Sitting

SELECT COMMITTEE ON ECONOMIC AFFAIRS

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Sheppard, H. N. (Northumberland PC) for Mr. McFadden

Clerk: Arnott, D.

Staff:
Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Canadian Meat Council:
Adams, D. M., General Manager

From the Institute of Management Consultants of Ontario:
Hathaway, D. B., President; with Hathaway Consulting Services

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, April 17, 1986

The committee resumed at 14:09 in room 228.

Mr. Chairman: We will get started. I would like to take of some housekeeping first, and I have just been informed that the delegation tomorrow is able to be here at 10:30 in the morning. So we will change our agenda to have them appear at 10:30.

Mr. Arnott has asked me whether or not we might think of a discussion at 10:00 a.m. followed by a meeting 10:30 a.m., but I do not know that we have anything to discuss until we hear from Washington. So I take it it is a consensus that we meet tomorrow at 10:30 and not at 2:00 p.m.

We have with us this afternoon, Mr. Tom Adams from the Canadian Meat Council.

CANADIAN MEAT COUNCIL

Mr. Ferraro: David Adams.

Mr. Chairman: David Adams, I am sorry. That is a much better name than Tom.

You are here, sir, at least in part, at my instigation because I had initially when these sessions started been of the view that your council had some serious reservations about entering into an agreement. I understand that these reservations are somewhat changed as a result of the document that you published in February of 1986.

So I, particularly since I come from a meat-packing community, am interested in what you have to say today.

Mr. Adams: Well, thank you, Mr. Chairman and members of the committee. I believe you all have copies of our document. That, incidentally, is available in French if anyone is interested.

Mr. Ferraro: Do you have it in Italian?

Mr. Adams: Perhaps I could start off, Mr. Chairman, by giving you a little background on this document itself. This was approved at our annual meeting which was held in Toronto on the 6th of February this

year. And it is really our second in-depth study of the subject. The first one was one that we prepared in June almost a year ago, and that is the one that did indeed have some reservations.

Primarily we were expressing that we were concerned about a sudden jump into free trade. We favoured an evolutionary approach. We did have some real concerns then about the differences in labour costs. And while those concerns still exist, I do not think they are as great now as they were about a year ago. So I would like to make some comments in addition to what is set down in writing.

First of all, let me tell you that the Canadian Meat Council was formed in 1919, and it is a trade association for the federally inspected slaughtering and meat processing industry of Canada. I believe you have in front of you a list of our members in Ontario. Presently we have 10 firms that are either slaughterers or slaughterers and processers and seven members who are process meat operators, not slaughterers, and five who are specialized in the food service business. Also we have about 20 associate members who are companies that are based in Ontario.

I want to tell you a little bit about the province's meat-packing industry which we represent. The value of shipments, primarily sales of fresh beef, pork, veal and lamb, but also processed meats, amounts to well over $2.5 billion a year. And there are about 12,500 employees, a weekly payroll of $6 million. The value added in the most recent year was close to $600 million. The principal raw material, livestock, is of course the product of Ontario farms.

On a comparative basis, in terms of sales, we are the fifth largest manufacturing industry in the province. In terms of numbers of employees, our industry ranks tenth; in terms of value-added, eighteenth. And we are essentially a Canadian-owned industry, and the cattle and hogs from Ontario farms are the basis of our industry.

In 1985, the federally inspected slaughter in Ontario amounted to about 850,000 cattle, 115,000 calves, 3.5 million hogs and 31,000 sheep and lamb. Now, these and other market livestock are bought for cash, and in total provided 33% or one-third of Ontario's farm cash income. That is $1.7 billion and that cash money infused through the rural areas of the province. In fact it is a major source of cash for the non-metropolitan, non-city parts of southern Ontario.

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Traditionally, the livestock and meat industry has had a strong export orientation. The first packing plants in Ontario were built in the 1850's, one here in Toronto and another in Hamilton, and they were built to service the export market and that orientation has continued getting close now to a century and three-quarters, well over a century.

The health of our livestock and the standards of Canadian packing plants have received special emphasis over the years. So that Canadian meat has wider access on world markets than that of any other country.

Since 1950, the Ontario livestock and meat industry has been on a North American market. Meat and livestock flow either way across the border with the U.S. and the flow is considerable. In the last four years, Ontario meat exports to the U.S. have averaged over a milion and a quarter, $126 million per year on a four-year average, and that represents a share of Ontario's agricultural exports which is considerable. If you combine the livestock and meat involved, 17% of Ontario's agricultural export.

Last year, for instance, the Ontario Pork Producers Marketing Board sold 12% of its total volume to U.S buyers. About 30% of Canadian hog production, most of it goes to the U.S., some to a few other countries, but that 30% either as live hogs or as product is a considerable figure to back up the statement that the industry has a strong export orientation.

The figure for cattle is also high considering the volume of both live-slaughtered cattle and feeder cattle as well as beef exports, out of the west in the case of cuts and out of eastern Canada in the case of manufacturing beef. Exports to the States account for about 90% of all the exporting that Canada does in the area of live animals.

It is interesting, in the first quarter of this year, that our exports to the U.S. are up from 1985. The figure is 139 million pounds of product. That is over 10 million pounds a week of Canadian meat that goes south to the U.S., and in addition there is a considerable volume of livestock moved; 126,000 hogs, 55,000 cattle, smaller numbers of feeder cattle and calves.

<u>Mr. McLean</u>: Do you have a separate report on that or are you reading from this...

Mr. Adams: No. I am just giving some figures which I could provide in writing. I could just take this off when I get back to the office.

Mr. McLean: No. I will get them in the Hansard.

Mr. Adams: That is fine. Okay.

The livestock and meat industry, that is, the red meat sector, is the major agricultural exporter to the U.S. It earns about 50% of the total U.S. dollars earned through agricultural exports, and this is particularly important considering that Canada has an annual agricultural trade deficit with the U.S. and the amount is a deficit of about a billion dollars a year with the U.S. And somebody in Canada has to earn some dollars, U.S. dollars, to pay for the fruit and vegetables and other food products which we must import from the States.

1415

So I hope I have made my point that exports of meat to the U.S. are very important to Ontario and to the Canadian economy. And also with no interprovincial barriers in Canada as far as the flow of livestock and meat is concerned. It is important to realize that the national picture is very important to the Ontario picture. There is no difference.

If one province must export, it means that all provinces must support an export policy. Product will often flow within the Canadian market, and there is of course much Quebec pork product that flows through Ontario for export to the U.S.

Now, in the North American marketplace duties are relatively low and for the most part they are reciprocal. And we have explained in our document the position of both the livestock and the producer in the day-to-day marketplace, and in fact every deal that is made against the background of the U.S. market and the influence it has on the Canadian market, it is there in every deal. The auction of making a trade to the U.S. or sourcing from the U.S. is there whether it is a fact or not of actual physical movement.

Now, our interest in the freer trade discussions, therefore, is not so much centred on the tariff reductions, because the tariffs have been reduced to a very considerable extent. Our emphasis is more on other priorities, and we would say access, continuing access, is number one, non-tariff barrier reduction and

greater emphasis on value-added exports.

Access if of real concern to us at the present time, aside from the general protectionist move through the U.S. agricultural community, as you may be aware, we in the last year and a half or so we have faced very strong countervail action against Canadian pigs and against Canadian pork.

We fought a countervail case last summer. During the temporary period, we faced a countervail duty on Canadian pork as well as on Canadian hogs, and in the final determination the duty was removed from pork. It was over 5--at one point it was 5.5¢ a pound; for much of the period it was 5.3. That duty was removed but continues on live hogs from Canada at the rate of 4.39¢ a pound.

Currently, we are very concerned about discussions in connection with the House Ways and Means Committee in Washington and the general trade bill that they are working on. There is a very real risk that the definition of "light product" will be amended and a new countervail case could be brought and Canadian pork would be subject to the duty.

So access in the case of pork is a very, very real problem, and of course we have been involved to a very considerable extent with the federal authorities, with the Canadian Pork Council and with the Ontario Hog Board and others in trying to at least hold our position, if not improve our position, on this one.

The whole problem of agricultural subsidies between Canada and the U.S. is an extremely difficult one. In Canada, the tendency has been for stabilization payments to be made on the livestock. In the U.S., the stabilization payments tend to be put on at a lower stage in the production chain, primarily on the grain. And therefore we are seeing countervail action being brought by the U.S. based on our stabilization payments.

On the other hand, the U.S. has very rich payments in terms of credit subsidies, very rich loan rates on corn and so on. And we just wish that this whole problem could be switched from the courts and the quasi-judicial process and the legislative process to around the table for some trade bargaining where the countries could agree on what is reasonable aid to an agricultural community, define it and then live by it. And that gives rise to our first recommendation which is in our policy statement.

Secondly, there is a fundamental overall question of livestock policy. How much in excess of domestic requirements do we want to go? How much of a national effort do we want to maintain or improve our competitive status with the U.S.? And this is the thinking behind our second recommendation in our report.

And the livestock industry, the meat animal industry of Ontario and of Canada has looked at the options available many times and, as you are aware, they have opted for the competitive open-market stance. They want to be able to produce for export. They have not gone for the supply managed route. As a result, in many rural communities, not only this province but others in Canada, beef production and hog production have been one of the few areas where there is some room for expansion or flexibility in terms of agricultural production.

An example of the success, one of the real success stories of the position that this province is in, is grain corn in Ontario and how that grain corn culture has moved from essentially the Chatham area right through to Ottawa and down the St. Lawrence river. I think grain corn will go right through the Province of Quebec down the river valley. And that combination of the corn technology that is being applied by hog producers and farmers and very solid application of hog production principles has enabled the hog production industry in Ontario to be very competitive with the U.S. industry across the border, not only in the hog growing but just as much in the basic production of corn. And that is very important and all the more reason why access and securing access is important.

There is also the question in terms of access of import quota levels. Now, these have tended to apply more in the cattle and beef area, and both countries have them. They are tied to national policy and they are roughly similar in both the U.S. and in Canada. And we have touched on this particular point in our recommendation number six.

Now, in the area of non-tariff barriers, there are many impediments to meat and livestock trade, considerable though that trade is, and these impediments are primarily in the area of livestock health, meat inspection, packaging and labelling. Grading is another area.

Thus, we suggested that we sit down with the livestock producers and the government, and in this case it is primarily Agriculture Canada's Food Production and Inspection Branch, and begin to look at areas where these

non-tariff barriers can be reduced. And you will be interested to know that last week we did have one exploratory meeting with these other players, so we have made a start on our recommendations numbers three and four.

We know that Canada is an important market for U.S. livestock and meat as well as being an important source of supply for them and we know that U.S. farms are anxious to facilitate their exports to Canada. Signals have already been sent back and forth across the border by the national trade associations that unofficially liaison on bilateral trade would be useful, and that is the basis of our recommendation number five.

Now, with respect to processed meat--the duties on livestock and fresh meat are either very low or reciprocal, but on the case of processed meats they are more variable and they tend to be higher. For instance, the duty on processed beef, let us say vacuum-packaged beef ready for the restaurant trade, coming into Canada the duty is 2¢ a pound.

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If that same product of Canadian origin were to go south, the duty is 4%, or if it is lower quality beef it would be 10%. Quite a difference, in fact five to ten times as high a duty on the U.S. side as the Canadian side. That duty was reduced somewhat in the last GATT round, but this is certainly one area that we want to see some bilateral discussion about.

So while generally tariffs are not a problem, there is scope for tariff reduction on the processed meats, and that is the basis for our recommendation number seven.

The non-tariff barriers are very complex in the case of processed meat, and there is a good potential to simplify some of them, and that is the basis of our recommendation number eight.

I could read our conclusion. It is short, but I do not want to do other than say that we have lived for a very long time with very close to a free market with the U.S. We believe our industry is competitive and we are anxious to continue to be competitive and anxious to continue to have access.

We believe that Canadian agriculture is determined that they will produce in excess of domestic requirements, in other words, that they can earn additional dollars through an export bias. Certainly it

is in the interests of the Canadian packing industry to improve its trading relationship with the U.S. We are a trading industry. So our council fully supports and wishes to participate in improved and enhanced access to the U.S. market.

And as I mentioned, our position stems from a conviction that our industry can compete, and given the level playing field in particular that Clayton Noyder (phonetic) talks about, we feel that we can compete on that. And we would simply ask in the case of the group in this room that certainly some of the factors are the general background and climate in which an industry must operate and all the little things that go to keep an industry functioning, many of them are in the provincial jurisdiction and anything that can be done in the provincial sphere to help our industry to continue to compete would be most welcome.

Mr. Chairman: Thank you very much.

I take it, "level playing field" would include revamped or even removed countervail activity?

Mr. Adams: Very definitely.

Mr. Chairman: Mr. Mackenzie, then Mr. Smith and Mr. Sheppard.

Mr. Mackenzie: My first question is: how do you view the boxed beef development is affecting your current pro free trade position? I notice on page 7 that you list a number of concerns and questions as to whether or not it is going to enable you to continue the current success you have in market penetration.

Mr. Adams: Nationally, I think we are encouraged by the present situation with respect to boxed beef exports to the U.S. Naturally, most of the boxed beef exports are out of Alberta establishments into the west coast market of the U.S.

In Canada, traditionally Montreal has been the market, that has been the swing market and the lead market in the Canadian beef business. With transportation costs going the way they are, we are seeing western Alberta beef tending now to move in boxes more and more to the west coast and increasing amounts to the U.S. And some of this is of very recently, as of the last few months that that penetration to the U.S. has increased, some of it helped by the dollar, by the exchange rate but also helped by a trend in the U.S. to go for leaner beef. And Canadian beef meets some of the parameters that some of the big California chain stores

have gone for.

Now, with Alberta beef going south, then the Montreal market is tending to reach into Ontario for more of its beef supplies. We think that eastern Canada, Montreal in particular, is the area that would be most vulnerable to one of the giant U.S. companies deciding to move a lot of boxed beef into that market. And we were concerned that this might happen a year ago, but in fact it did not happen.

1430

I think that the Canadian companies are finding that by stressing service and individual attention they are able to compete against some of the giants and they are more encouraged than they were a year ago and feel rather enthusiastic about the prospects. I would have to say the prospects tend to centre more in western Canada rather than here in Ontario.

Mr. Mackenzie: So you would really downplay that second paragraph of your brief on page 7 then?

Mr. Adams: Yes. We would play it down a little more today than earlier.

Mr. Mackenzie: Your position also is dependent, as I take it from your brief, on both competing success and probably this would be even more so in terms of large boxed beef operations, is based on lower both wages and labour costs, I take it, if I am reading page six correctly.

Mr. Adams: Certainly, considering the scale of operations that some of the giant U.S. plants have, if the dollar were to move suddenly to par--no one expects that it would move up very quickly--but in the short term, there could be some real dislocations in the Canadian marketplace.

Mr. Mackenzie: Can you provide us--in the event that we have a comprehensive bilateral free trade agreement, can you provide us with any real figures or hard evidence in terms of new or additional jobs that would be created in the red meat industry or export industry? I am talking now about gains as against security of current, and obviously security in the access you have now seems to be one of your main thrusts.

Mr. Adams: Certainly we do not feel there would be any loss. To the extent that we could make some gains in the processed meat area, there might be some more value-adding activity. I do not think there would

be large gains, and the fundamental decision really rests with the livestock producers of the country rather than the meatpackers. Certainly the meatpacker has to pay enough money to keep the livestock in Canada rather than have them walk across the border. We feel that on a reasonable basis he would be able to.

It is hard to answer your question because it depends on the amount of livestock you would have surplus to domestic needs.

Mr. Mackenzie: It is one of the key questions, as I am sure you recognize, that we have wrestled with in this committee, having to come up with any hard evidence, even from those who favour a free trade agreement, as to where the jobs are going to come from, the additional jobs. There are some obvious losses. There are problems even in your presentation here obviously, but it is just trying to get a handle on where we might see some gains.

Mr. Adams: I think that our major concern, as you mentioned, is continuing to have access, and this is one of the concerns that if we did not go ahead in the area of keeping the border open or improving access, would we go back. And if we did go back, Ontario would suffer considerably.

Mr. Mackenzie: Can you--is there any--you raised the question of the producers and their ability to supply you. I am wondering if you have any comments on the fact that other than I guess the red meat industry, the farm groups are extremely concerned and in their briefs have opposed a comprehensive free trade agreement as have some of the poultry operators and a number of other farm groups.

Is the red meat industry the one bright spot in the picture or the one area that sees gains as against the rest of the agricultural community? And is the agricultural community's concern--and I suppose they play a role as well in terms of the feed supplies, one that may very well affect the red meat industry.

Mr. Adams: Well, I must say, I really only have had close liaison with the Pork Board, representing the hog producers and the Ontario Cattlemen's Association, representing the cattle producers, and certainly they feel quite strongly, as we do, about preserving access. And I think we all feel the same about a free trade thrust. I do not know all of the other commodity groups and what their position is.

1435

But, as I mentioned, one of the areas of flexibility in the province's agriculture is the whole livestock and meat industry. And there is an old saying in the business that livestock act as a balance wheel in agriculture. And if we are going to grow these basic crops and do not put them through livestock, how are they going to be turned into cash? And of course the livestock group really is at least 25% dependent upon the U.S. market at the present time.

Mr. Mackenzie: I guess it is the feed grain end of it that really concerns me. If they are not able to compete, as they argue, then the question arises as to the cost, I guess and the supply of food for a larger red meat industry in this province.

I guess what I would like to ask finally is: what makes you think it would be easier to deal with the issue of the barriers, non-tariff and otherwise? And when we had Mr. MacGuigan with us, we used to quite often get some beautiful examples of how in fact the subsidy programs in the U.S. on feed corn and so on were probably much greater than the more direct subsidy that we might see here.

But is this going to be easier to deal with on the broad comprehensive bilateral trade table than it would on an individual industry basis, as we have to deal now with the irritants where you are going to be faced very clearly with some tough bargaining--the Americans are not any fools--and where you are going to be faced with the actual trade-offs, whether it is in other agricultural products, if indeed that is on the table, or things like the auto pact, which may very well be very much on the table given some of the new developments in Japanese auto firms and so on.

Just why do you think it would be easier to deal with the problems that are facing the red meat industry and the problems you had with subsidies and so no on this broader negotiating table than it would on a sector or an industry or a red meat basis?

Mr. Adams: Well, I guess the way we are dealing with them now and have to deal with them now is as we are in the countervail case, which means you are trying to defend yourself in a U.S. court on U.S. rules. And they write the rulebook in a certain way, and it really does not suit the Canadian interests very well. And I guess by the same token, if we decided to take action against them on a countervail duty here, it would be Canadian rules and a Canadian court.

On the other hand, negotiation implies sitting around the table and horse trading and looking the other fellow in the eye and saying okay, we have a red meat plan and you are quite right, we do play out that much but we pay it out this way. But we know you are doing it through your state farm banks and various loan programs and loan schemes on corn and river subsidies on the Mississippi. And argue it out there and at least you have got a common set of rules and presumably jointly can come up with what is a valid argument.

Some of the things we have said that we feel are valid moral arguments have no standing whatsoever in a countervail case. So that is one of the big areas, and we know of course that the U.S. is quite interested in this kind of a discussion, because they are certainly having many problems, as we are, with the EEC interpretation of subsidy.

Mr. Mackenzie: I was always impressed with the steel industries arguments, and they too would like some standardized rules I guess would be fair to say in terms of the presentation made by the President of Stelco, Mr. Allen, to this committee. But on the other hand, the fight we had a couple of years ago over the U.S. efforts to reduce the steel imports from Canada into the U.S. were won largely on the basis, at the risk of over-simplification, of finally being able to impress enough of the players and some of the elected American officials that for every dollar of finished steel that was being shipped into the U.S., there was a buck and a quarter coming back here in cooking coal and coke and pellets and machinery, and in fact they would be hurt more than we would if this happened.

I guess my wonder, in terms of the last question I asked you as well, if Mr. MacGuigan is right, for example, and we can prove that there is as much or more subsidization in terms of the feed grain or corn programs in the U.S., then we should have a pretty valid argument, one on one in the industry, when we are faced with its hogs or what have you with the protectionist sentiment. And I am just not sure that that is easier achieved, as I say, on a broader negotiating table than it is on a one on one.

1440

It is not easy one on one; we all know that. I am just wondering whether or not that is not going to be our lot in life, especially if we do not have a free trade agreement.

Mr. Adams: Well, Mr. Chairman, I guess my only comment would be: where are the free trade, the bilateral, discussion package before us? We would certainly be urging the government to get into these kinds of discussions. In fact we already have and I think at least informally the livestock and meat group is resolved. There seems to be enough momentum on both sides of the border with respect to the non-tariff barriers. The discussions should take place regardless of whether the others break down or not. But the broader field seems to be one where this difficult question of subsidy has some appeal within the agricultural industries, for example.

The Chairman: Very briefly, what would the force be of the attack on the Montreal market that you were concerned about?

Mr. Adams: I would think that would be that the large producers in the U.S. of box beef tend to be located in the Iowa and Newbraska area where they are closer to Montreal than the Alberta clients. I would think that those people, if they decided to go at Montreal, they could. Now they could go at Montreal any day of the week right with minimal duty but they, partially the dollar but partially other circumstances, they have not been able to successfully penetrate this market and this is the fact of life in the meat business.

Even though with these massive pork exports to the U.S. there is U.S. pork on counters in Toronto right today and there probably always will be. It is the nature of the trade. There are certain people in Canada who feel that they may want to draw on that market at some point so they keep the channels open. But the Canadian industry has to be smart enough to make sure that it is very minimal.

The Chairman: Is there also Canadian pork in Detroit and Cleveland.

Mr. Adams: Oh, yes, many, many times.

The Chairman: Is there a lot Alberta products that ends up in Montreal?

Mr. Adams: Yes. I cannot give you the figures today but when it all moved by rail there were something in the order 200 to 250 rail cars a week that rolled into the Montreal beef market. Now today that is different. That was all suspended. As carcasses now it is a combination; some carcasses, some box beef, some by rail and some by truck. So it is a little harder to get a handle on it but it is a very, very significant

quantity of beef that rolls into that market.

The Chairman: Thank you. Mr. Smith?

Mr. Smith: Thank you, Mr. Chairman.

I think maybe this question has partly been asked by Mr. McKenzie. But I wondered if this free trade subject, when the borders were opened up totally, and I am talking about your poultry industry as well. I gather some was completely free. I guess you say on the same playing field, and I do not believe it will ever happen, quite frankly. But would there be any new processing plants built in Ontario if these borders were opened up to be totally free, as we talk about free trade?

I guess why I ask that is if I do not believe that you people in the meat industry will build any more processing plants in this province or this country, then really I can hardly believe that free trade is good for us; possibly from a producers point of view. But I just wonder, do you think any processing plants would be built in Ontario if these borders were opened up further than they are now?

Mr. Adams: The reason that you would build new facilities of course would be that you would have to have an expanding base over what you have now. And I just cannot conceive of it being completely open, there is going to be labelling differences or something, but beyond what we have now, which was pretty good access, the change would not be great over what we have now. There would be some change, naturally, but the technology is such that I think that Ontario plants could compete and could exist in the U.S. market. There is no reason to think that they could not.

Now that means when I am saying that I am assuming that Canadian wage rates are not higher than U.S. rates, that fringe costs, fringe benefits are not higher, the tax structure is roughly equal, that Canada has a quality base in its livestock, it has a quality base in its labour pool and the labour high quality cuts over and above what most U.S. plants can do.

We have some climatic disadvantages but we also have some advantages. And Ontario, if you think of it, is almost an arrowhead jutting a way down into that U.S. market. We are closer to a lot of the main U.S. markets than are the major U.S. plants. So I can see lots of changes happening over time. But over that time happening, my opinion is that Ontario would gain. There is going to be shifts. And I am talking strictly red meat. I know nothing about the poultry industry.

Mr. Smith-Lambton: But do you think that; just listening to you I think you would have to come back though and say that we have to have some type of protection. I mean, I think there are two plants in the States that produce or process 40 per cent of the beef? Is that not right? Iowa beef is one of them. I cannot name the other one right now. But to me they are huge plants and they could pump enough beef up; if you say they could pump it into Montreal, well they sure as heck can get it into the Toronto area.

And I have listened to everybody since I have been on this Committee, there are so many little "ifs" that come into play here, that the primary producer who is the cattleman or the hogman, if we do not keep some processing here and protect him to some degree, the processor is not even going to be able stay either.

And that is what I was going to ask you in the next question. If free trade opens up, would your Council support supply management if the producers asked for it?

Mr. Adams: To answer your last question first, our stance I think would remain as it has been which is that supply management is primarily a producer decision and if they make that decision, so be it. But once they make that decision then when it comes to writing the rules we would like to have a part in writing the rules under a supply management regime. Because, as soon as you go for supply management then you are beginning to interfere with price and allocation and you get into a marketing situation that is different in allocating supplies than traditionally. So there is no problem. As far as your last question, it is yes, our traditional stance is that we would respect the producer's decision. It is their's to make.

Mr. Smith-Lambton: But you still want to be part of writing the rules as to how this is done.

Mr. Adams: Yes, because our people put up the cash, they are the buyers, and they feel that they have some right in the determination of the rules of how the product is going to be sold.

You are only the middle person in this big chain because the consumer still pays whatever price you have to have and they pay whatever price the producer gets. Not necessarily what he needs to cover his costs, but what he gets. So the consumer in the end pays the price. And I guess I asked that question because I heard on the television, maybe two years ago, I think it was

maybe the President or the Vice-President of Snyders who said that he would fight the supply management right down to the last discussions, I guess. I just wanted to hear that coming from the comments from the people that are in this Council.

To me, other sectors have fixed supply and they manage it well, I guess. But it seems though when a primary producer wants to get in on the act, they are a different bunch of cats and it is a little tougher. And we do not have the same access to the media and maybe we do not have the same dollars to fight back with that some of you in your industry would have.

When this man made his statement I was surprised because I thought, you know, it is going-to be tough for the primary producer to get his cost of production, plus a profit and that is all that they were asking for. But I think the producers have argued this pretty strongly amongst themselves. I know the hog producers have and I know the cattlemen have. And the question they face is: if we are going to restrict supply, then we have automatically go to cut off the one-third of production that goes on export. And then that means that every third farm is going to have to shut down. So they have opted for the other side of being competitive and having the advantages that the U.S. market and the larger production gives them. There is virtually a free market. It is a North American market they are producing for now and they are doing a good job of producing a product that can hold its own in the Japanese markets as well. And this has been the traditional stance.

Sure they have had lots of arguments amongst themselves over it, but the big majority up to this point has opted for this export orientation. And free trade, in terms of tarriffs, is almost there right now in the case of the livestock and meat industry. It is not a big thing. Preserving that, what we have is the big problem.

But if we allowed the imports to come in, we have import quotas on beef right now and if we opened that up, you can flood us from the State side. But we do not have, for the kind of beef that we have been talking about which would be Iowa beef, box beef, that is high quality beef and there is no quota on that. It is always other than for a couple of months until they get the rules straightened out in the early part of 1985. That could come in here in any quantity today, or tomorrow, or next week, or it could have two years ago. The thing the Canmadian industry has done has been smart enough to keep it out. Because we were able to out compete them in this market. Or, in other words, they can get a better return

in some other market.

Mr. Smith-Lambton: So you are saying there is no import quota on the beef?

Mr. Adams: On the beef? No, not on high-quality beef. There is an import quota which is not applicable this year on low quality beef from the U.S. But there is very little low quality beef that comes in the from the U.S. The low quality beef comes from in from overseas. We export, we are large exporters of low quality beef. No, there is no quota there.

The Chairman: For what it is worth, Mr. Smith, I think Snyders now has a new President and I have put similar questions to him and he assures me that Snyders has a very large market in neighbouring U.S. States that they wish to cure and expand if possible and they have no fears whatsoever of the large meat packing producers in the United States, largely because of the question of geographic proximity and the fact that they can get the product to Michigan, Ohio, etcetera, more quickly than apparently, the American producers can.

Mr. Smith-Lampton: Well, I am going to pass for now.

The Chairman: Mr. Shepherd, Mr. McLean and Mr. Lane.

Mr. Shephard: Mr. Adams, I see that you have handed out a list here of slaughter fresh meat packers here. Are these the only ones that belong to the Council Members of Ontario

Mr. Adams: Yes. The membership of the Council is entirely voluntary and these are our members. There are many other companies in Ontario who are not members. It is a pretty high proportion of the total volume of business is done is represented by our membership.

Mr. Sheppard: I know of a couple of small ones that are not on here. I see the one from Indian River is medium size. What I wanted to ask you was, you were talking about top quality beef coming in from the United States, from Iowa. What is lower quality beef?

Mr. Adams: In terms of the way the Canadian import regulations operate, and this is under Meat Import Act, high quality beef is defined as A-2 to A-3 and A-4 or equivalent. And it is an international definition. And that high quality beef is exempt from the import quota. Now there is no import quota really in effect at

the present time. The legislation is there and it can be invoked quickly if need be. And it was never written to really apply against the Americans in the first place and the one time which was in the early part of 1985, it was quite embarrassing when it was looking as if it would because the cattlemen were very Canadian cattlemen and they were very, very concerned because of having the exporters of cattle to the U.S. of course and that was never the purpose.

Mr. Sheppard: Now, we have talked about free trade, and there is meat going back and across the border. Do we send top quality beef to the United States in the same way and in the same manner and grade it the same.

Mr. Adams: Yes, we do and this growing box beef export business to California and down the western coast is a development. But part of the problem in the meat trade is that each country likes a corner of their own market. Now what I mean by that, the beef that sells best in Canada is Canadian beef with Canadian grade stamps on it with Canadian inspection stamps on it. What sells best in the U.S. is beef with their stamps on it. And the way to get around the stamps is to walk the animals across the border. And then they can be slaughtered in the U.S, they are a product of the U.S.

Mr. Sheppard: You can not truck them across, you have to walk them across?

Mr. Adams: No, no. But there is a big trade and the big trade is from southern Alberta into clients in the adjacent states. And there is a big operation in Washington and Seattle that slaughters Alberta beef at drop of hat; they will move in, buy Alberta cattle, move them to Seattle, slaughter them and truck them back and put them into Vancouver if the Alberta packers are not competitive enough.

But the big thing that they will try to do, of course, is they have got that beef in their own Seattle market with U.S. stamps on it and it is much more acceptable to the whole U.S. marketing chain.

By the same token in Eastern Canada, if there is a shortfall here, the beef tends to come in live, live cattle from Iowa, slaughtered in Ontario and here, a product of Canada the same as the Alberta cattle that goes out, or Ontario, when they go out for slaughter, they are a product of the U.S. because there is a fair labour content.

Now one of the things that we would like to

see happen, and we have talked with the Canadian Cattlemen's Association and the government is, why in the course of thinking about improving access and improving our markets, why do we not try to get an arrangement with the Americans where Canadian graders could grade products destined for export to the U.S. with U.S. marks on it. put a U.S. grade on it. And by the same token, if they are going to ship here, let the U.S. grader do the same. Then each has better access to the other's market and if it is done reciprocally, the industry should be more efficient.

These are some of the intriguing things that we see in pursuing some euchre playing, call it what you like, sitting around the table with a group bargaining session that we see opening up in a broad freer trade or a broad bi-lateral discussion package.

Mr. Sheppard: You said earlier that you had met with hog industry people and the Cattlemen's Association but you did not say you had met with the sheep producers. You just met with two of the red meat producers. I presume that the rest did not meet with you because they probably were not agreeable with freer trade. I talked to a lot of cattlemen and they said wll, we have had free trade for a number of years. That is fine, but driving through the country there is going to be less and less feed lots across the Province of Ontario.

What if the government was to bring in a stiffer marketing board that you could only grow so many hogs or so many beef per farmer. How would that affect your business?

Mr. Adams: Well it would affect it quite considerably because the ramifications of limiting a production that way means you have to seal the borders of the produce. And as soon as you seal them you have to seal them against imports which means that exports just will not work if you seal the border one way.

So if it were decided to limit production of course it would adversely affect our membership.

On the other part of your question, the reason the sheep and lamb people we have not discussed it with them is we invited them to come to the meeting and their secretary happened to be away at the time and this was a preliminary discussion and was not able to get there and we have since been talking to her on the phone and she is going to be at the next meeting. But the only reason we have not had a discussion with the sheep people on this basic approach is that they said it happened that

it was not convenient for them to be there at the first meeting.

Mr. Sheppard: Did you ask any of the other marketing boards or any of the other people like milk or wheat or grain? No, you did not?

Mr. Adams: No, strictly the red meat industry which is really the only major one that is involved in trade right now.

Mr. Sheppard: My last question, Mr. Chairman. A year ago the first of April the United States cut us off of export. We were exporting at that time I think about 20 per cent of the pork that was produced here in the Province of Ontario. And the United States cut it off last year, the first of April. How did that affect your business, or if any.

Mr. Adams: Well it certainly had an effect. What it did, the U.S. applied the counterveil duties on the first of April on both live hauled exports and on pork exports. So the result was that very quickly the price in Canada dropped with the hogs and the price of pork markets in Canada just dropped by the amount of those duties because we are export based primarily.

Now after roughly the first of August they had a final determination and the duty was removed on pork and kept on hogs. The result of that was that many more hogs stayed in Canada for slaughter. Exports of pork to the U.S. increased but not nearly by as much as the Americans thought they would. But they did increase somewhat. There were more highly processed pork exports. Exports to Japan picked up considerably because the price relationship was a little better and the Japanese market was beginning to return to what it had been. One of the reasons the exports to the States had been so high was some temporary factors in the Japanese market.

So this counterveil action had a very big effect on our industry. I can tell you it had a tremendous effect on our legal bill. It is just unbelievable, and we are still; I was talking to our lawyers in Washington today and yesterday and I will be tomorrow. It is very, very critical this whole thing. The whole thrust of the industry and I am including the livestock industry too.

We went through the history of our industry very, very tramatic times in the era of the smalley hoot tarriffs back in the 30s. I think it was the early 30s. And they literally cut Canada off. Now all of a sudden we had to go and find markets in the U.K. and there were

cattle boats got into the act to try and move the surplus.

Were a surplus producing livestock nation, always have been. It think it suits our agricultural to continue that way and here we sit beside the best meat market in the world and we are closer to a lot of their markets than they are themselves. So that is our interest for this tarriff.

Mr. Sheppard: There is a lot of talk in the papers and on T.V. and radio that people are eating less and less red meat and they are going to chicken and fish. Do you think this is going to affect your business in the near future?

Mr. Adams: Very, very definitely it is affecting it right now and it is partially a cyclical situation. Some of it is the tail end of a cycle that started in the early 70s when there was among the grain in Western Canada and among the grain in the U.S. and the only way to get rid of it was put it through livestock. And it was, so that in 75-76 we had record beef consumption. As we were eating the product of all of that grain. Up through the early 70s all the lines on the graph for per capita consumption were all heading upward and the price was right. Everything was right and barbecques were coming in and people had lots of disposable income.

The only problem was we thought those lines were going to go up forever. And, of course, they did not. The cost of production changed as grain began to dry up and a lot of things happened and families got smaller, more wives working, aging population, a whole lot of things which were fundamental changes came along as well as the normal downturn as a big bubble in livestock output. So now all the lines are going down. The only thing we do not know, we know they are not going to go down forever, but we do not know when they are going to tip up. We have got these many, many cycles swinging back and forth.

Mr. Sheppard: Yes but I think more people are barbecquing more now than they did 10 years ago. The only thing I can say is, and I can say it sincerely, meat is too cheap in this country. In Ontario and in Canada. It should be twice the price of what it is compared to the European countries. And for the actual farmers to survive all farm commodities should be a lot higher than what they are.

I know my city friends would not agree with me.

That is all, Mr. Chairman.

Mr. McLean: A lot of my questions, Mr. Chairman, have been answered. Mr. Adams, are you from the processing industry.

Mr. Adams: Yes small industries, slaughters and processors.

Mr. McLean: Right. I presume then that when your costs goes up you probably charge a little extra for whatever, to meet your costs.

Mr. Adams: You would like to, but you may not be able to and very often you cannot. A very low bargain industry. One per cent on sales would be lovely. The fact is, you cannot pass it on. You would like to but obviously the firms that are still in existence are the ones who have been able to hack the sort periods and live with it. So you cannot say you cannot pass it on automatically, over the long term, obviously, yes.

Mr. McLean: I guess that is the problems with the farmers is that they have no place where they pick it up. That is their problem.

Just very briefly, would you think that the farmers would be better off with supply management?

Mr. Adams: In the case of red meat, hogs and cattle?

Mr. McLean: Well they are the only two really.

Mr. Adams: Well I do not think they would because automatically you have to have many fewer farmers that worked. Many, many involved would would create a drop in production.

Mr. McLean: Well, we are going to have fewer farmers anyway because they cannot produce it for what, they are losing them anyway.

I have nothing further, Mr. Chairman.

The Chairman: Mr. Lane?

Mr. Lane: Thank you, Mr. Chairman.

Looking at recommendation number six and we are talking about import quotas, I just wonder how you see supply management working if we had supply

management. I do not know how it could work if your import quotas are going to be flexible enough to bring in the extra meat. I do not see really how supply management would have any bearing on the cost return to the producer.

Mr. Adams: I find the question a little hard to answer but, let me go the poultry industry that has supply management and they literally do not trade. They have to do a little, but they do not trade. You know, everything is sealed and they produce for this market and that is all they produce for and they protect by, there is only limited amounts allowed to come into the market so they can live with and still maintain their price because the whole pricing structure has to become administered.

This particular recommendation number 6, the reason I wrote it was I was thinking back to the days when Nixon was president and you may recall some of you that there was a massive run and the dollar at that time was at a premium rather than a discount and there was a massive run by the U.S. packing industry on the Canadian livestock. There was also a massive run on Canadian feeder cattle and we were literally in this country in the position of ruining everything; every market animal being sucked right out of the country and Canada had to put export controls on.

So really the purpose was behind this recommendation was that if we are going to be entering into an enhanced trading relationship with the U.S. just because they are ten times larger, we need something to protect ourselves against not only being flooded but also from being completely drained.

Mr. Lane: But I am not supportive of subsidizing any industry on a permanent basis because I think there is something wrong with the industry if it has to be subsidized on a permanent basis. I cannot see any possibility of the beef producers in this province, anyway, being able to continue to produce beef unless they are subsidized in some manner.

Now even large programs that will probably prevent the feeder from actually losing any money. It does not relate in any work related way to the prime producer which is a cow/calf cooperator because it works on the last ten years. And in the last ten years I think there is only one year that the cow/calf producer got more money for his product that what it cost him to produce it. So that source is going to dry up and if that source dries up, the industry dries up because everything starts with the cow.

Mr. Adams: Could I respond to that? I do not want to talk the price of the cattle. But let us talk it from the other way around. There is a lot of cows in the Province and if they are not there, what you going to do? I think you have got x numbers of acres in this Province that will grow grass but it will not grow very much more. They are receiving God's free sunlight that warms us all and makes the grass and somebody is going to do something with that grass to turn it into dollars. And the way to turn it into dollars is through cattle. Now if you cannot make a dollar at it, and I quite acknowledge that it is a terrible situation, but somehow or other the adjustment maybe is not on the, and the price of cows is in line with the best you can get in the markets of the world literally, rather than going to the ridiculous subsidization in Europe.

But maybe something is wrong again because for various other reasons the price of land, or something inputs, was bid a way out of line. Now that does not solve the problem of the guy who is stuck on the spot and owns that land and all that that implies when the value of that land begins come to down and so on. That is an area I really should not be talking about other than passing a general comment that there is that resource of the province which is grass and if you do not put it through cattle, what are you going to put it through? You can put it through sheep, but if you do not do that. And it is a source of wealth.

Now the problem is, how are you going to do it and still have it viable. And the other thing is the way this country is structured in North America, it does not really matter if Ontario chooses not to produce the beef, there is enough beef in North America. The Province could be fed as much beef as it is getting now and it would not matter a whit whether it was produced here or not.

Mr. Lane: You are absolutely right. I come from Northern Ontario and, you are right, our beef production is basically on marginal farm land and if they did not produce beef, they would not produce anything. But we cannot continually produce beef at a loss and yet it is one of our biggest industries in Northern Ontario between beef production and tourism that is about all we have, plus our resource industries.

And there is just no way that the regional producer of cattle can survive because his cost of gasoline, fertililzer, seed grains, etcetera, etcetera, continue to go up, labour, cost of purchasing machinery, etcetera. I means, sure, we have go the grass but we

cannot afford to graze it anymore because of the fact it costs too much to operate home farm. I do not know where the answer is. I know that is not your field, but I am just wondering if you have any concerns about that.

Mr. Adams: Of course I certainly have concerns and I guess my own personal gut feeling is certainly as well as our organization that has a big stake in this. After all, the livelihood of the meat packing industry depends on the livelihood of the producers being viable. But our gut feeling is that the key to success in this is having better access to the U.S. than we have now, enhancing it.

Mr. Lane: Is it a fact that the consumer in Canada or in Ontario basically as I know about pays less of his expendible dollar for food than in European countries?

Mr. Adams: I think that is basically true. The figure now is down around 17 or 18 per cent of disposable income. Now I am not sure how that compares with other countries. In Europe the figures they are getting, again, are so distorted in Europe by the CAP that I do not know.

Mr. Lane: It seems to me there is about a seven cent spread, someplace along the line.

Mr. Adams: Certainly in some countries, heavens, they are spending 40 per cent of their income.

Mr. Lane: Does that have any bearing on the problem that I am trying to get you to address?

Mr. Adams: Well I guess it does to a point. I think it means that the human body will only hold so much food and you have to work so hard to look after it is a basic point and then after that you end up with money to spend for more things and as your generally prosperity increases you look for more and more refined food and higher quality food and things of that nature. I guess the sign that Canada and the U.S. are not the lowest amongst the lowest in terms of proportion that as a society we have a very high standard of living. We have got enough money beyond the basic necessities.

Mr. Lane: If you find the answer someday, would you let me know please.

Thank you very much.

The Chairman: Okay, Mr. Bossy.

Mr. Bossy: Very, very quickly, this will be very short. Having worked for one of these packing plansts for several years myself, I am quite familiar in the operation but there was one thing, you made the comment earlier that regardless of whether we raised one steer in this province or not we would be well supplied with meat. And I am sure that would be.

Opening the borders, and we are looking free trade, would it just make it a little handier for the meat packing plants because it would not help the farming community here whatsoever because as I know the meat packing plants have access to any meat they want at any time they want now with the tremendous: we have the technology and the expertise and the efficiency and everything else to produce.

And I have made the comment before to farmer groups and I have to qualify it very quickly that there has been a lot of money made in producing in the meat business as far as: but it has not been made by the farmer. It has been made after it left the gates. In every case the farmer is not able to set a price on his product. It is set by these people right here.

Market prices in this area, we have heard the comment here somewhere and I agree with that, that our meat is too cheap. But if you did raise the price of meat it would not get into the right hands unfortunately. I know where it would reside and it would stay right with these people or the spin-offs or the people in between. So that I am very concerned that if we, and I can imagine that the meat packing plants would be totally in favour of free trade because we have nearly got that way now. And that is why we are hurting so bad as far as the farmer is concerned.

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I cannot see one single benefit for opening the border on free trade for the farmer and if you can say that, your group here can, I mean explain how the farmer will benefit here. This is what I will have to explain to my community that I represent which is entirely agricultural. I am going to tell you that I have an awful time. Those people are very concerned and they do not buy: the farmer does not want, there is the odd one, an independent who may want it. One that deals directly with his cattle to the packer. That is the only one that supports free trade.

The Chairman: Mr. Adams has indicated that he is speaking basically from the perspective of the Meat Council.

Mr. Bossy: I realize that, that is why I am saying that this group gives support but there is a large group that does not in the same industry.

The Chairman: Or other meat packers.

Mr. Adams: If I could respond to Mr. Bossy. Let me talk about the position of the Ontario Meat Packers who deals with the producers primarily of hogs and cattle in Ontario. Those producers themselves are very much in favour of free trade because I think they see: and I should not use the word free "freer trade" because they see the alternatives. But if you are meat packer, I have to to today, if I am buying hogs, I have to pay enough money to get hogs and I have to get all my supply in Ontario. I have to compete for those hogs against Quebec packers who can just pull in and buy enough Ontario to fill in their kill so they can pay a marginally higher rate. I have to bid against U.S. packers because they have full access to Ontario hogs. I have no access beyond Ontario.

So the Ontario producer is getting the best market he can possibly get for his livestock. Now, if I am a meat packer I can certainly, as I have always been able to, I can bring in cuts from the U.S. or I can export cuts. We have mentioned this on pages three and four.

In the case of cattle, the producer can move his cattle south or he can sell them here. He has that option, the packer has the option of bringing in cuts or bringing in U.S. cattle or bringing in Western cattle. And that is the way the business has operated essentially since 1950.

And the industry has flourished. Ontario hog production is growing. Ontario is producing more and more hogs so the arithmetic on the one hand may say it is no good and that may be right, but it still, there is still more coming. So there is a few thing that must be right in it. The other thing is that right now the problem for the Ontario producers of hogs is if he changes the option of moving his hogs to the south they face this counterveil duty. And the only way I think we are going to get that counterveil duty off those hogs is if we have a new trading arrangement with the U.S. And if we do not have that, then the Ontario farmer is going to be the loser.

Mr. Bossy: It will be a lower price to the farmer.

Mr. Adams: Pardon me?

Mr. Bossy: It will be a lower price to the farmer.

Mr. Adams: Well he is getting the 4.39 cents per pound, or whatever it is. Sure, it is coming out of his pocket. Now if he could get that on the hogs he sells to the States the Ontario market is settling for something less than it would if that duty were not there because the producer has lost that full freedom of movement to the States. And the Americans would say so what, you will not let any of our hogs come in here.

But surely if the Ontario producer has shown he is able to compete since 1950 and hack a place for himself in the North American meat market, he is better off by getting back at least what he had before and he is not going to be able to do it unless we get these trade discussions to sort this thing out about subsidization and that means that heavenly days, the Pork Council and ourselves have spent a fortune on fighting this thing in Washington. And when I say a fortune, I mean it.

And it is extremely serious and so I think bilateral trade discussions are the way to solve it. I do see it solved to our benefit in their fighting today in Washington. They are working today to change the regulations to make them worse, not better. That is what we would like to see settled around the table.

Now if you, and your other statements about where the dollars rests and so on, if you had invested in the meat packing industry you might feel a little differently.

Mr. Bossy: I worked with Canada Packers for fifteen years.

Mr. Adams: Well, I do not know if you were a shareholder or if you have seen the rationalization that has had to go on on this end of the industry.

Mr. Smith-Lampton: In either country the small producer is not getting his cost production and a living that is comparable to our city cousins. That is what is wrong.

The Chairman: That is a debate that is not going to be resolved this afternoon, Mr. Smith.

Mr. Adams: You cannot force people to eat, Mr. Chairman.

Mr. Smith-Lampton: This is it. They do not get their costs production plus a profit at the primary producer level.

Mr. Adams: But that has nothing to do with free trade.

The Chairman: Mr. Adams, you have presented your case extremely well and you have stood up to obviously the agricultural caucuses who look at things from a slightly different-perspective. I appreciate your bringing the views of the Meat Council here because it has clarified a lot of questions in a lot of our minds and we certainly are going to consider your report.

Thank you.

Mr. Adams: Thank you.

The Chairman: We have finally this afternoon, and I appreciate your patience in waiting, Mr. Don Hathaway, the President of the Institute of Management Consultants of Ontario. Mr. Hathaway we think way back in September we attempted to get together with you. I think initially you were going to come down to Kitchener and that fell by the way side. So we appreciate having a chance to hear from you now. We have been looking this morning particularly at the engineering profession and we are looking generally at service industries, trying to look a little more closely at them. So we are looking forward to what you have to say.

Mr. Hathaway: Thank you, Mr. Chairman and members of the Select Committee.

Perhaps I will just ramble on for a few moments and then open myself to questions. I have given Mr. Arnault a summary of the points that I wish to make and I think I will ensconce those in the presentation.

I suppose I should start by first of all saying that management consulting is something that I find myself as a member of the profession and in fact as the President of the Institute in Ontario, in difficulty in defining, it has been a matter of some discussion in our own profession for a long time.

And so I thought I might start by telling you what our view is. We believe that management consulting is a service, obviously. It is performed, we trust, by business professionals who are objective, at an arm's length relationship with their client and can provide therefore advice which is constructive and economically beneficial to those clients.

There are many areas in which consulting operates but I have chosen to fix upon only a few because I think these are the major fields of endeavour. Strategic planning, information systems of all sorts, whether that means those operated by automation or those operated in manual ways, by financial control of course, this is where the consulting industry started because I think we sprang out of the bowel of the accounting industry about 25 or 30 years ago; human resource management which has probably the most rapidly growing section of the consulting business; operations management, economic studies and resources and in marketing.

And with those functional areas I suppose one could look at where our clients are from. About 28 per cent of our clients are found in the public sector, government, your government, ministries, agencies, Crown corporations and the like, and about 72 per cent in the private sector.

I will not go through all the numbers, but you will find on the final page of the notes which have been passed around to you, a breakdown in percentage terms of where revenue is derived and the distribution by geographic region in Canada. And my purpose in showing that is to point out that Ontario with close to 41 per cent of the income in management consulting is certainly the dominant leader. And in fact, the institute that I represent is the dominant institute in Canada.

To put ourselves in place in the spectrum of the consulting industry, my institute is the one to which individual practitioners belongs. In other words, we are the body which accredits individuals who wish to practice and have behind their name the designation C.M.C., or Certified Management Consultant. It is relatively recent fixture in terms of its legal definition. In fact it was passed into law by Bill-PR26 some three years ago in November in Ontario and I might point out that this is a first, not only in Canada but in the world. There is no other jurisdiction in which management consultants operate with a legal definition, a specific body of knowledge on which to operate, a code of ethics and a reference process enshrined in law. We are widely admired I might add for that and imitated by our American cousins.

The Institute in Ontario is one of a number of institutes across the country. In fact, Saskatchewan is the only Province which currently does not have a provincial institute. Those provincial institutes in turn are part of the umbrella body, The Institute of

Management Consultants of Canada, which is truly an umbrella. It exists only to ensure receiprocity amongst the provincial institutes. It allows me as a practitioner to move to another province and not have to sit for another set of examinations, for example. It ensures consistency in the code of ethics and the standards of practice across the country. It was a tough thing to achieve and again, widely admired, particularly in Europe, Great Britain and in the United States where that standard of practice has yet to be achieved.

I have included in the my notes the name of another organization, The Canadian Association of Management Consultants so that we are all clear about the various bodies on which we are talking. CAMC is a trade association in effect of 22 major management consulting firms. The members of that organization are companies, not individuals and I do not pretend to represent them. I would be a member of a firm which was a member of that association, but I do not pretend to represent them today, I am representing the individual practitioners.

Management consultants come in a variety of types ranging from sole practitioners, completely independent business people through independent firms of various sizes from two or three persons to as many as several hundred. There are two varieties of consulting practices attached to accounting firms. One described as management advisory services which is usually simply an offshoot of the accounting practice. The other, the semi-independent consulting practices, and these are the ones that are amongst the so-called big eight firms, where many of my members live. In this group you would find larger firms such as Woods Warden; Touche Ross; Craig, Coopers & Lybrand, etcetera.

There are a number of moonlighting university professors who are management consultants on a part-time basis and there are a number of internal consultants within organizations. In Ontario, notably, those are found in the Bureau of Management Consulting in the Federal Government. In a smaller group with in the provincial government within the City of Toronto, and in very small pockets in some of the larger companies.

Our fees are earned in a variety of ways and as I look at the daily or hourly fee rates quoted I am reminded of a telephone call that I had a couple of months ago when Mr. Reeseman was retained at the grandiose sum of $800 a day and I was asked if I thought that was worthwhile. You can see why, from the range that I have quoted of $350 to as much as $3,000 a day, why I said that I though Mr. Reeseman was a steal at that price.

To talk perhaps a little more specifically about the scope of management consulting in Ontario, I have noted that about 40 per cent of the total fees in consulting in Canada are earned in Ontario and that is roughtly $300,000,000. And I have to say at this point and caution you that I am speaking in approximations because it is virtually impossible to get a definition of the exact number of consulting firms, the exact number of consultants and therefore the income which the industry represents.

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In preparing for today, what we have done is catalogued the consulting firms in each of the various cities, in the major cities, and then let that go on the assumption that there were not that many in smaller towns and cities and hamlets. And so that when I say that there are about 1,000 individual firms in Ontario, this is from an approximation that we prepared. We know exactly how many there are in Ottawa, there are 253, there are 582 in Toronto, those we can get from business registrations. So those are the two major centres for consulting in the province.

We employ about 5,000 people in the province and not a terribly large number but this is the knowledge of the industry and in fact in many ways the central core of the knowledge industry and a rather substantial spin-off in terms of subcontrators and part-time employees. It is an industry that is growing quite rapidly. Something like 15 per cent per year on an annual basis.

And turning to the subject which I heard discussed in the last few moments with the representative of the Meat Packing industry, that of, what do we do about our American cousins, I can tell you that my own industry at least in the sense of those who are registered with the Institute in Ontario, we would like to have the opportunity to compete with the Americans on their turf and let them come and compete on ours.

We have two significant advantages. One of course was the dollar differential. Even if that were to change, we would retain the advantage of having relatively high standards. This is always a difficult thing to address because I do not mean to say that they are therefore inferior. They are not. Some of the largest and best consulting firms in the world are American firms. But on an average across the industry our consultants tend to be relatively highly educated, relatively well experienced and the standards set in

terms of the code of ethics, the standards of practice are high. And we therefore find ourselves accepted quite quickly in the American market if we could get to it.

We are not allowed to go into the American market. Not by virtue of any provincial regulation or statute but by immigration laws from the United States. They simply stop us at the border ask us if we have a green card and when we have not, we are turned back. And I can tell you some personal stories about that because I have a very good client just south Toledo in Ohio and I am afraid I had said that I was going to a conference on many occasions when in fact I was going to work for that client.

So perhaps I will stop there. I think have you given you a few of the salient points and perhaps I can answer your questions.

The Chairman: Thank you, very much. Mr. Barlow has a question.

Mr. Barlow: Mr. Hathaway as a senior management consultant you would be into many different types of businesses in your career and certainly your colleagues careers many of whom I am sure have been, certianly their industries have been before us, giving both sides of the issue. Some pros and cons as far as free trade is concerned.

You have given the view of your industry. Can you give us any idea of other industries that you have talked to that let's say that favour it. Are they doing it from a selfish point of view, are they favouring free trade barriers or opposing it or are they doing it for exactly the same reason?

Mr. Hathaway: No, I do not think I could comment on that. I would only be commenting based on a pretty small sample of clients that I have come into contact with personally. And I really do not think that would be approprite because it is just too small to be meaningful. While I have got a rather busy practice, I feel that on something like ten to a dozen clients in the space of a year and I just do not think that is a large enough sample to make any comments on that.

Mr. Barlow: Okay, thank you. When you say that there is a lot moonlighters, a lot of part-timers, you mentioned professors, I think you suggested as one area. Are there other people who kind of hold themselves out as consultants that you would prefer not to be in existence?

Mr. Hathaway: There is two groups. There are those who describe themselves as management consultants and in fact that are not consultants of management, they are really providing virtually office overload. This is very common in the computer industry, especially in the early years when large mainframe computers demanded a lot of pull errors. That group is now defunct with the advent of the micro. We have all got one on our desk and that as a source of income for people is growing up.

The other group that I wish did not exist is the practice of some executive calling themselves consultants during a period of time when they are actually out looking for a job. And with a relatively high priced executive that person might be seeking a position for a few months and up to as much as a year. And during that time, of course, they can earn a fee as a consultant. I have no objection to that. I just wish they would be a little more careful about some of their practices. Because we do find some clients having had bad experiences and then turning to us and saying well, you represent the Institute, what do you do about this. Of course a lot of these people are not part of our Institute.

Mr. Barlow: I am interested in the regulations that are handed down or under the Act that was passed by this Legislature. As such, are you therefore a self regulating industry? If one of your members misguides someone body or whatever reason, can you, have you any way to penalize or to bring this man before a committee or yours?

Mr. Hathaway: Yes, we do. We have the right to bring any member before an Ethics Committee. We have patterned ourselves on the Institute of Chartered Accountants in this regard and on the Association of Professional Engineers. Many of us are either accountants or engineers as well as being consultants, so many of us carry two professional designations. So we have patterned ourselves on that and the Committee on Ethics provides a forum for clients outside of the court of law where they can seek redress. And they have the power to cause a consulting firm to make economic redress and if that fails, we strip them of their designation.

Now, I guess you might say, so what. But more and more on the marketplace there is a demand for specialized people and evidence in specialization is a tough thing to come by. And one way you can come by it is through membership in an Institute such as ours and to that extent it is quite a strong stick.

The Chairman: Mr. McKenzie and then Mr.

Cordiano.

Mr. McKenzie: I can see the potential for growth in your industry but I would like to ask you the same question I asked some of the others, and that is can you in any way, shape or form put a figure on the new jobs that might be produced in your industry with a comprehensive free trade agreement.

Mr. Hathaway: I would have to do that on a guesstimate basis, Mr. McKenzie, and I am a little reluctant but let us speculate just for a moment. If the 15 per cent growth of the industry is seen now were it to at least continue and perhaps increase with freer trade, then we would see a continued growth especially in the smaller firms. What we are seeing now is a bit of a trend to derive in very large firms of a broad based nature. We are seeing a lot of smaller specialized firms. And each times that one of those firms comes into existence, it produces three, four, five, six jobs. And we are never going to produce the number of jobs that a General Motors does. However, the jobs that we produce are of very high value and they are high value added, high fees earned on the part of the consultant and relatively high wages paid to support staff.

And in the case of a freer trade market of course, they are dollars that we earn outside of the Province and bring in.

Mr. McKenzie: But you cannot put any kind of a number on that?

Mr. Hathaway: No, I do not think I could.

Mr. McKenzie: Is it fair to say also that most of the people that might be added in this respect are not people that are likely to go without work in any event. You have got a level of expertise and training.

Mr. Hathaway: With the exception of support staff I think is true.

Mr. Cordiano: Mr. Hathaway, with regard to, how should I term it, export of the work that you are doing in the United States, let us look at it that way. 1.5 per cent of billing, 1.5 per cent of the total sales if you will, and I would think you would term that billing. Right?

Mr. Hathaway: Yes.

Mr. Cordiano: It is done in the United States. How does that break down in terms of functional;

what kind of work are you doing in the United States at this point?

Mr. Hathaway: Virtually all of the varieties that you see listed, if there is a focus it tends to be in a financially related consulting more than anything else. We do not do much public sector consulting in the United States. There is a tendency on both sides of the border to hire Canadians north of the 49th parallel, Americans south of it. But except for that we cover all those sectors.

Mr. Cordiano: So there is no problem for expanding that because businesses operating in the U.S. virtually operate under the same kinds of conditions basically the same as Canadian businesses.

Mr. Hathaway: I set up the same.

Mr. Cordiano: What about overseas? Would that be a problem as well? I know that some accounting practices are different from ours, and some of the rules in accounting. Am I correct to assume that?

Mr. Hathaway: The rules for accountants are definitely different. Tax treatment is different, for example, and accountants have to take care of that. We found Europe to be quite a growth area in the last number of years. There seems to be a tendency to think that people from out of town are experts and those from out of the country are even more knowledgeable and we find that Germany and France, for example, are quite popular to us.

Mr. Ferraro: Supplementary to that. Excuse me if I am out of line, but it is in line with your answer to the first question. Are there any information barriers to where your consultants in any particular province can go?

Mr. Hathaway: No.

Mr. Ferraro: Thank you.

Mr. Cordiano: There seems to be a trend in Europe now for example the arising prominence of MBA as far as the American market is concerned instilled tremendous growth and then they were taking on more of these how do you train people in terms of management consulting, but that has declined over the last several years has it not? I can see in accounting more the growth.

Mr. Hathaway: Are you asking me if because of the slower rate of hiring MBAs does that mean there is

a slower rate of hiring consultants? Is that what you are suggesting?

Mr. Cordiano: No, I am just saying that the status that used to be held as far as MBA, American graduates, being hired by a number of firms in Europe, by European firms in fact, and they were held in high esteem.

Mr. Hathaway: That is still happening, and not just for Americans firms. You will find that the MBAs out of the Canadian schools are being hired in Europe as well.

Mr. Cordiano: Thanks.

The Chairman: Thank you very much. I guess the major thrust of what you are saying is you would like to open up the border for movement of personnel more than anything else.

Mr. Hathaway: That is right. There really are no tarriff barriers or anything of that sort. Our problem is really one of much more of an immigration law problem. We are facing the barrier as we go south into the United States and the need to have a green card, the work permit and without that in hand it is impossible to operate in the American market. Now we do the same thing with the Americans coming here and we realize that we have to face competition from them if they had freer access to the Canadian market. But, frankly, we would love to have an opportunity at that much larger American market in return for having them on our own turf.

The Chairman: There is no major difference in the talent of consulting in the two countries then I take it?

Mr. Hathaway: No. The backgrounds, the education, even fact even the schools to which they go, there are a marked similarity.

Mr. Cordiano: With regard to executives in the last fifteen years, not perhaps as much now but certainly in the 60s and 70s where a large number of American educated executives of markets were coming up to head offices in this country. Is that still going on?

Mr. Hathaway: And there were an equal number going in the other direction.

Mr. Cordiano: Is there?

Mr. Hathaway: The school, I am a graduate of

McGill University, and there are a couple of populations of graduates outside of Montreal that are quite large. The largest chapter for McGill outside of Montreal is Toronto. The next largest chapter is Los Angeles. Then the next largest chapter is New York City. A substantial numbers that go south and this is not necessarily on topic of consulting, but I can tell you that I belong to a very large international management consulting firm and in the last five years we have grown at much more than 15 per cent per year. And we deliberately used Canadian partners to open offices in other parts of the world because we find that they are very flexible and quite a lot more aggressive. And we are an American based firm originally.

Mr. Cordiano: I see. So the Canadian executives want south of the border. Are they invovled largely with Canadian firms or are they being hired by the American firms?

Mr. Hathaway: They are being hired by American firms. Unless they go south with Olympia & York or something like that. But before you mentioned American executives coming north. Most of those are coming north with the subsidiaries with American internationals.

Mr. Cordiano: So there is no problem with the regard to the exchange of executives, let us put it that way.

Mr. Hathaway: No, none whatever.

Mr. Cordiano: You cannot look at that and compare it to the exchange of consulting services.

Mr. Hathaway: No.

The Chairman: Mr. Ferraro.

Mr. Ferraro: Thank you, Mr. Chairman and I hope you will excuse me Mr. Chairman when I ask this question. Mr. Hathaway, I found it interesting and indeed it makes me think, the fact that your profession has the legitimacy by act of the Ontario government or whatever. My question is along the line of how do you distinguish between, or indeed is there a problem, when you have, and it has been my experience and my work, that I found many lawyers masquerading as consultants; or many lawyers think they are real estate experts, they are experts in finance, and so forth and so on.

Is there a distinction, or have you ever experienced any of that?

Mr. Hathaway: I have noticed that between Tuesday when an election occurs, the ballotts are counted and the naming to the Cabinet, that people become instant experts in a wide variety of things.

Mr. Ferraro: Have you ever run across any problems?

Mr. Hathaway: Yes, I have run across many lawyers masquerading as many things but I do not know what we can do about that.

Mr. Ferraro: But as far as your mandate and your code of ethics is concerned you do not have anything that would particularly preclude a lawyer?

Mr. Hathaway: No, we do not. In fact the all party committee that examined me, because I was there before that committee when we were asking for legislation on the designation, they all party committee was quite interested in whether or not we were attempting to restrict practice. And we assured the committee that we were not and said that the only thing that we wished to do was to hold out a matter of respectability for those who were prepared to work hard enough to earn it. And to the extent that that constituted a marketplace advantage, then all well and good. But we had no intention of saying to anyone, lawyer or otherwise, that if he wants to call himself a management consultant then he is free to do that.

Mr. Ferraro: Do you have any breakdown of figures of what professions end up essentially being management consultants?

Mr. Hathaway: Yes, I do. I do not have them with me but for what it is worth, there is a high proportion of accountants and engineers. And if you add those two together, it comes to more than 50 per cent of the total consulting profession. The favorite target for the consulting firms today would be a technical undergraduate degree, whether that is an engineering or science or mathematics, followed by five or six years of experience, plus an MBA.

The Chairman: Thank you very much for your submission. It has been very helpful and very enlightening to us. Thank you for coming.

Mr. Hathaway: Thank you.

The Chairman: Until 10:30 tomorrow.

The committee adjourned at 3:57 p.m.

SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

FRIDAY, APRIL 18, 1986

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Witnesses:

From the Canadian Independent Computer Services Association:
Loewen, W. H., Executive Director
Turner, D., Director
Lawford, H., Member; President, QL Systems Ltd.

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Friday, April 18, 1986

The committee commenced at 10:33 a.m. in room 228.

Mr. Chairman: We will start this morning.

We have with us this morning the Canadian Independent Computer Services Association, and we welcome you gentlemen. We welcome you particularly in that you have come from some distance to be with us today. We have with us the Executive Director of the Association William Loewen; Mr. Don Turner, a Director; and Professor Hugh Lawford from Queen's University, a member. And we look forward to your presentation. We have been, in the last few days particularly, looking at service industries and we have talked around your industry, but we have not really looked at it thoroughly. So this is our chance.

CANADIAN INDEPENDENT COMPUTER SERVICES ASSOCIATION

Mr. Loewen: We would like to thank you very much for the opportunity to appear before you.

Canadian Independent Computer Services Association is an association of about 60 computer services companies from across Canada. We basically operate from Winnipeg and our association tends to be an issue-oriented association.

Membership in our association is restricted to companies whose prime interest is the computer service industry and which are mostly Canadian-owned. More than 50% Canadian-owned.

The industry as a whole is made up of about 25,000 employees employed in about 1,800 firms. It is a sound industry and I would like to begin by saying that the inudstry itself is not particularly threatened by free trade in any particular way.

We are not really here to represent a view for protection or for free trade about our industry. We are here to try to inform you of a threat to employment beyond just our industry in Canada. We would like to make the point that there is--particularly strongly if we can--that Canada has already lost 200,000 jobs because of a phenomena called variously, as true in computer services, transborder data flow and various other names. Obviously we cannot lose 200,000 jobs in an industry that

only employs 23,000.

We are concerned about this industry--about this job loss and worry of this job loss because we happen to be in a particular part of the computer services industry that recognizes both what is going on today and what is likely to go on in the future. We recognize that partly because we are very close to the technology of today and the technology that is coming and also because we are in very close touch with the marketplace because we call on firms who have moved these 200,000 jobs out of Canada.

And the reason this has become an issue at this particular stage is that foreign companies particularly have formerly had to have in Canada the administration of their operations in Canada. A factory in Canada would have accounting staff here and management people. It was not practical with crass communications methods and delays that might occur at border in hard copy moving across the border to try to manage a business from a distance. Today with a completely open border policy that we have it is possible to not only manage a business from a distance, but performing most of the clerical and administrative duties that that business requires from a distance. And this occurs because of the linking of computers and terminals through the telecommunications networks.

The issue was first raised very serious back in 1978 and 1979 and dealt with by a committee referred to as a Consultitive Committee on the Implications of Telecommunications on Canadian Sovereignty. I have given you a copy of the pertinent parts of that study. It is also referred to as the Clyne Commission.

Among the recommendations of that Commission was a statement that: "The Government should require that data processing relating to Canadian business operations be performed in Canada except when otherwise authorized."

The result of not following that recommendation is that we have lost 200,000 jobs. Our brief tries to demonstrate as clearly as we possibly can how that 200,000 jobs can be proved. You can find the proof in surveys that the government itself has done, two surveys, one at the time of the Clyne Commission and a subsequent one at the time of another study that did not produce a report referred to as the Kriegler (phonetic) Commission.

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It is also found in a study done by Price

Waterhouse that analyzed the results of that first study for the Clyne Commission. We have done our own analysis of that and the figures supporting that analysis are in our brief.

We have also recognized, because we see in the marketplace that particular foreign-owned companies under employ in Canada, particularly in the administrative area, and they tend not to be potential clients for our industry. So we have examined the employment by corporation in the United States of companies such as IBM and General Motors, and so on, and compared the foreign--their international employment with their employment in Canada. And at that back of our brief we have produced an analysis of some 70 firms showing those firms that have tended to underemploy in Canada.

You would find that IBM has 11,000 employees in Canada. Had their employment per million dollars of sales been the same in Canada as it is in the United States they would employ a further 8,000 employees in Canada.

In the case of General Motors, using that same formula, they employ 45,391 employees in Canada. That is from the Financial Post annual report of the largest 500 companies in Canada. They employ in Canada 2.78 employees per million dollars of sales. In the United States they employ 6.7 employees per million dollars of sales. The difference is 63,000 employees in Canada, but the real employ in Canada, had our employment level been the same.

We do not say in General Motors or in IBM's case that all of those are administrative jobs, but we do know that many of them are. They would be administrative, they would be research and development jobs, clerical jobs and, of course, management.

Possibly a fairly dramatic illustration of how this phenomena of management plants, management of operations from outside Canada occurred here recently when General Motors announced a $2 billion investment requiring a very minimal number of employees. The management of that plant, clerical work, the administration of the sales of the products coming out of that plant is being done from the States, we suspect.

<u>Mr. Mackenzie</u>: Can I stop you for just a moment?

<u>Mr. Lowewen</u>: Sure.

Mr. Mackenzie: These comparisons you are using, are we operating from the so-called level putting field in free trade parlance? In other words, can we make the kind of comparisons you are making between the jobs per million dollars of sales in the U.S. and Canada? Are we comparing apples with apples or are there factors that are overriding here?

Mr. Loewen: If we were to have the information, if someone were to have the information to analyze in detail exactly what this difference is, I daresay it would be--then that person could answer your question.

We are saying that there is a general enough trend there that it supports our argument that we are losing jobs for this reasons.

There are numerous other indications, for example in our brief we have included an article about American Motors where they have, it has been reported, that they have reduced their data processing staff to five employees in Canada by connecting their Canadian plants to their U.S. computer system by Telecom Canada. That is a $750 million business and they only employ five data processing people in Canada.

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We have to realize too that when the information moves out of the country to be dealt with, there is a whole host of other things go with that information. Obviously management goes where the information is and clerical jobs go, but it does not stop there. Auditors go to where the management is. Lawyers are generally where management is. Advertising agencies and the whole host of peripheral support industries move with that.

We calculate that the 200,000 job loss that has already occurred could rise to 500,000 jobs where the computer--the movement and the development of these systems is by no means complete. It is going on all the time.

In our brief we have also referred rather extensively to a study done by two people, Mr. Feketekuty and Ms Hauser of the United States, and they are probably the best known authorities on transborder data flow in the States and have senior positions with the U.S. government. And they have dealt very extensively with this issue of trade in services. In one part of their study they say that 240,000 jobs were created a month in 1983 alone in the service industry.

Here are some of the quotes that they make and you can recognize that they are speaking from the American point of view, and the effects of what they are saying mostly impacts Canada.

Here is one quote:

> " With modern communication and data storage and processing, however, it is possible to receive and deliver information instantly over great distances, and this means that the two activities can be separated geographically. "

This is management and operations can be separated-geographically.

> " The growth in the number of multinational corporations and the increase in the scope of their activities has prompted a sharp demand for services that can be provided on a global basis. "

Then they go on to explain how the United States deficit in goods is probably fully offset by a surplus, an unmeasured surplus in trade and services where these multinationals charge their affiliates for the services that are being provided at head offices. That to me seems to coincide with the fact that the U.S. dollar has always been strong at a time when they have had a deficit in goods. Conversely, the Canadian dollar has been weak at a time that we have had a surplus in goods, in trade and goods. And I am sure that Canada has a very large unmeasured deficit in trade and services and that deficit is going to get much, much larger. That starts the point on trade in data services.

The second point that we wanted to make has to do with the development of high technology in Canada. And we have provided you with a copy of a study prepard last August, or presented last August to the Minister of State for Science and Technology in the federal government. It is called "Canadian Trade In High-Technology, An Analysis of Issues and Prospects."

And in its executive summary at the beginning, just to make it easy, on page 6 at the top of the page, it says:

> "The high-technology trade deficit of close to $12 billion in 1984 was equivalent to a loss of approximately 120,000 jobs to Canadians or 10% of the current unemployed

labour force. "

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The study goes into great detail of our position relative to other countries in Canada and finds us mostly in either last position or second last position.

Between these two issues that there has very definitely been a loss of some 300,000 jobs, and that loss could rise to 500,000 to 600,000 in the next five to ten years.

We believe that it is far more important and probably far more productive to the Canadian economy to address this issue than it will ever be, and that anyone has ever predicted it would be to address the free trade issue.

No one is predicting what free trade, that I know of, that free trade will compensate for, say, that additional loss of 300,000 jobs that we say will occur, let alone recover the some 300,000 jobs that we are already short.

Mr. Mackenzie: Mr. Chairman, sorry to interrupt one again.

Are you then telling us in a nutshell that this is the issue that we address and the question is how we address it. For example, we have had an awful lot of witnesses before this committee say that one our problems in trying to look at the whole free trade issue is that we lack any real coherent industrial or economic strategy in this country. Is that part of what you are telling us?

Mr. Loewen: Yes, I think maybe in my terms, and I guess I am not used to dealing in such big things as government, but in my terms it would be that we have to understand this issue before we talk about free trade or anything else. Because if we go into the negotiations--for example, we quoted the Macdonald Commission to say that we could maybe trade off manufacturing jobs that we want with service jobs that the United States wants. Well, that would be the height of folly because the growth is in service jobs and the potential for loss is far, has to be far greater than the Macdonald Commission ever understood it to be. And the concentration, if we are going to deal in free trade the Canadian Constitution should be on the services industry because everywhere you look you can recognize and you hear predictions that manufacturing jobs if not going to

be in decline are going to be--there is going to be no growth there. The growth is all in the services industry.

Mr. Mackenzie: So it is a perception of where we are going, both in terms of the service industry as well as what is left of...

Mr. Loewen: You are right.

Mr. Mackenzie: ...industry or manufacturing and resource that has to be the assessment that you take into any comprehensive cost.

Mr. Loewen: That is right.

And if the negotiators were to understand this issue and were to go the United States and say that we have to ensure that there would be growth in Canadian jobs in the services industry, you might very well end the talks right there because I am certain that the Americans are well aware that that is where they are going to gain. And unless Canadians understand what they gain we lose we are lost in that negotiation.

Mr. Smith: Who do you think then Macdonald was really working for as well as Mr. Reisman then?

Mr. Chairman: Perhaps we can wait until Mr. Loewen finished his presentation and then we can get into questions.

Mr. Smith: Okay.

Mr. Loewen: I think we have made our major points and that we would be willing to discuss those points and maybe a few other informal points.

Mr. Chairman: All right, Mr. Smith, go ahead then.

Mr. Smith: Okay.

Then well, you know, like I have listened to quite a few people and you try to, I do not know, figure a little bit about what each one is trying to say. But you are almost--when I listen to you you are almost trying to say that Macdonald really was not working in the best interests of Canada and maybe--I do not know whether your Simon Reisman, I do not know the man at all so it does not make any difference there, I guess--but is he as well informed for the Canadian interest as you feel he should be?

Mr. Loewen: Well, you have asked for opinions and I guess I will give them for what they are worth.

I think that Reisman credit for that autopac deal was misplaced and it seems to me that the figures, if you measure our position in terms of dollars with trade I suppose the autopac deal--it looks to me it was at least a marginal deal if not a good deal. But what it was really meant to do was to ensure jobs. And when you analyze the jobs of the automobile industry the way we have it seems that the autopac deal was a tremendous failure. And I would hope that we would not do the same thing in the other part of our industry.

Mr. Chairman: Did you say it was a tremendous failure?

Mr. Loewen: Yes.

Mr. Chairman: Could you expand on that?

Mr. Loewen: I am talking about this moment in time. I do not know how it compares with history, you know, our historical employment in the automobile industry. But if you see the analysis that we prepared, and certainly it is subject to question. We would love to have it questioned and analyzed further, but we have lost over...

Mr. Mackenzie: We should have a hell of a lot more jobs.

Mr. Loewen: That is right. We should have 100,000 more jobs in the major automobile producers alone. And I am not too sure that other people in the automobile do not understand that too.

Mr. Chairman: Mr. Smith has the floor. Go ahead. You have a supplementary?

Mr. Smith: I do not know whether I can ask any more at this time. I will let anybody else go.

Mr. Loewen: Could I just answer about Mr. Macdonald. You asked about him as well.

I feel that that study and many of the people involved in the study are much to much in touch with multinationals and studies that are sponsored by multinationals and that is where we are going wrong. The multinationals really do not have Canada's interests--and I do not blame them for that--they do not have Canada's best interests at heart. And if you deal with the

problem in their interest and with their advice you are likely to go wrong.

Mr. Smith: So you are saying we put too much weight on their thoughts over the last number of years.

A Speaker: That is right.

Mr. Smith: We have watched this for a number of years and read studies and it is hard to keep in touch with all the various institutes that have produced studies. So many of the studies that have been produced are the type of studies that were sponsored by multinationals and that have research people that can produce their point of view. We have no research budget. We grab the figures we can and hope somebody will take them and make good policy out of them, and that is what we are here to try to do right now.

Mr. Chairman: We have some real dynamite here, I think. We have got a number of people wanting to ask questions. Mr. Mackenzie, Mr. Lane, Mr. Barlow, Mr. McFadden and Mr. Cordiano.

Mr. Mackenzie.

Mr. Mackenzie: First, in my own mind I would like t put in perspective a bit your comments on the, for example, the autopac.

I think I can buy the argument that we do not have anywhere near the jobs we should have from the major manufacturers in terms of the dollars of sales here. But it is a little bit confusing because I do not think there has been anybody before us that does not recognize the only real value added plus, at least in the manufacturing sector, and specifically in Ontario, has been the automotive pac from the auto industry. And there are ample figures that give us some encouragement in terms of what is protected and what would be the case if we did not have it place.

I remember Mr. Macdonald and some of the ministry people and other witnesses before us that say you do away with the autopac and, at least industrially, it would be devastating in the Province of Ontario. So I understand your argument that we may not have our share, but you certainly would have a hard time, I think, with almost any member of the committee making the case that we want to be willing to give up, you know, that particular achievement.

Mr. Loewen: I think it is not necessarily a case of undoing things that are done. It is a case of

making them work better. One of our recommendations is that--well, our prime recommendation is that Canadian data be processed in Canada. But any company that maintains a reasonable level of employment in Canada or if they would put the volume of business they are doing in Canada they would be given freedom to do their data processing anywhere.

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If our figures are right I think there is a reason to go to General Motors and say, really you should have more jobs here in Canada or examine the autopac and see if maybe some provisions that need to be strengthened or maybe even are not being followed the way they were intended to be.

Mr. Mackenzie: Maybe you can give us some direction in terms of what some of the aternatives are that we may have to discuss as a committee.

The other thing that I wonder about a little bit is the whole service sector. We asked, for example, Mr. Baker of Baker's International, which is a small successful firm, I guess yesterday, if he saw the U.S. desire to grab ahold of even more of our service sector as one of the real threats. In his case he did not seem to see that as the problem. But very clearly you are saying that this is the problem. And at the risk of putting two questions into one, the other half of that question is how much of that job loss you are talking about and how much of that problem in the service sector, the 200,000 jobs you are talking about that we have potentially lost, is because of the very fact of multinationals or the branch plant economy we have where the work in many cases will be done outside of this country by the very nature, at the moment at least, of the industry or the company or the ownership?

Mr. Loewen: Well, I think as far as our industry is concerned we would, to some extent at least, share Baker's position as far as service industries. If it is profitable for us to go the States, I think a number of us could. Canada is a pretty good market in itself and if the import replacement is important right now for our industry.

But that is not what we are talking about. It is not the Acres kind of situation, it is the head office kind of situation. And it is not thought to be inevitable that because the head office by American companies, in our experience, that because the head office is in the States that they are going to have freedom to move all the administrative functions to the

States. Obviously the multinationals would like that, but I do not think that they really expect it. There are some indications that major corporations never did expect it. If they get it it is a bonus. Certainly it would be a great plus for their negotiators if they could get what Mr. Frazee has proposed is free access, a parcel of rights which taken together would ensure suppliers and users of computer services in one country, assured access to markets and services available in the other. That was what he recommended. And if the multinationals could get that, that would be a big plus for them. But I really do not think that the people that I have talked to expect to get it. People often say to me--Americans often say, I understand your position, to me, and I think you are 100% right and we should not be taking that out of the Canadian economy.

Mr. Mackenzie: The problem, then, that you are presenting us with in terms of the decisions we have to make, as a committee trying to deal in whatever way we can with the free trade issue, because you are saying to us what a number of people said, maybe a little more simplistic way than some of the specific industries or sectors, and that is that one of the conditions of any free trade pact has got to be these various caveats, these various guarantees certain things are not there. And this, of course, gets us into the very problem we have had with our American friends and with others who insist that while they do not want to hurt us--we heard that in Washington as well--everything has got to be on the table. And it is a question then, you know, if we are in comprehensive trade talks of where the bargains are made and what is traded off.

Mr. Chairman: On the other hand he was also saying if he had to put the autopac on the table here is a place it could be improved. I guess the danger is various areas in which it could be pertinent. Where we are right now we could worsen our position.

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Mr. Mackenzie: We know. We do it here too. We are not blaming the Americans alone, but the perochial we see it in some of the bills that are before the Congress the nature of some of the Senators and Congressmen, that they have got an industry and the border northeastern States are a good example, where a lot of their parts plants and machine shops for basic operations are down or with pretty heavy unemployment and they take a look at our current five plus the billion surplus and things like the autopac where there is an immediate effect in terms of industrial jobs, you can bet your bottom dollar that we may have to trade something

off to keep that if we decide now it may not be right. We are really looking at the broader view, but that is one of the things that we will be faced.

Mr. Chairman: Mr. Lane has a question.

Mr. Lane: Thank you, Mr. Chairman.

You have provided us with some pretty startling information this morning, I think, as far as I am concerned anyway. In looking at the discussion paper, that was prepared for the Minister of State, page 33,

> " The trade deficit of close to $12 billion in high technology products in 1984 is therefore equivalent to a loss of about 120,000 jobs to Canadians or 10% of the present unemployed labour force in Canada. "

So that is basically how you arrive at the figures you are giving us in one in your...

Mr. Loewen: That is right.

Mr. Lane: Yes.

Mr. Loewen: Yes.

Mr. Lane: So we are not talking about jobs that was, we are talking about jobs that will not be basically.

Mr. Loewen: Well, with our present policies, yes, they will not be.

Mr. Lane: All right. So I guess the thing that bothers me is how do we arrive in this position? Is it because we have been lagging behind in our high tech development? How come we are in such bad shape at this particular point in time and could get worse according to your figures here?

Mr. Loewen: Well, I would say that the biggest reason is foreign ownership or our policies relative to foreign owners. We maybe should have won more jobs out of them as a condition of being part of our market. In another earlier time when foreign ownership was a matter of discussion, we came across statistics that showed that Canada had, in this particular general area, Canada had 58% foreign ownership, Australia had 38% and the next to it foreign ownership, the level was 20%. I think that was France.

We have an enormous amount of foreign

ownership in this country and I think it has a major effect on employment in this country. And I think the analyses we have done of that 70 companies demonstrates the effect. And it is going to get worse.

Mr. Mackenzie: It would appear of the many agencies we had to take a look at the extent.

Mr. Loewen: Well, there could be many other reasons, but that is one that comes off the top.

Mr. Lane: Well, rather than being too tough then, as we have been led to believe that it was, maybe it was not tough enough. Is that what you are saying that you have met many people...

Mr. Loewen: It depends on what you want. If you want a $2 billion plant that is going to employ what, 1,200 people, I guess that looks good from the point of view of total buyers of foreign ownership, of foreign investment. But what we really need is investment in this country that creates jobs and you do not need $2 billion investments to create jobs.

I have a company that employs 210 people and it cost $15,000 worth of investment to employ those people. That is one beautiful thing about the services industry, if we can retain it here in Canada it tends to be a low capital--have low capital needs. And that is ideal for the Canadian situation now because we do not have too many pools of capital.

Mr. Lane: So when foreign investment wants to come in here should it be on the terms of joint venture with Canadians and would that be a way to keep on top of it?

Mr. Loewen: I guess I feel that we are capable of doing an awful lot more for ourselves and I am not too sure that we need the foreign help. In the computer industry we can or have done just about everything we need to do at some point or another. We did not need the huge imports of computer equipment and computer software, computer services. We are fully capable of doing those things oursleves. Some of the best software and hardware that you can find anywhere in the world you can find at Waterloo, but we will not use it.

Mr. Lane: Thank you very much. Thank you, Mr. Chairman.

Mr. Loewen: But we do. Our company does. Ask the next banker you see where they are going to buy

the $1 billion worth of banking terminals that they are going install in Canada. Somehow in big companies, big organizations and big governments the thought never occurs that they should buy in Canada, that there is any advantage in buying from Canada. Obviously the banks could create an industry right there, but it never occurs to them. And if we were to change that thinking around that we have got to deal with ourselves then that would be far more productive than trying to work out a deal with the United States that is very ify.

Mr. Lawford: Could I just supplement the comments made? One place to start would be in Ontario Government procurement. The Ontario Government might consider allowing Ontario and other Canadian bidders to bid for Ontario software and information systems. When you installed your information system for the Attorney General's Department last year only five bidders were on the list, they were all American companies. We had to force our way into the bid by hearing about it accidently. We have never received, to the best of my knowledge, a tender from any Ontario Government agency.

Mr. McLean: The member from Waterloo should be working on your behalf, sir.

Mr. Chairman: This was last year, Professor Lawford.

Mr. Lawford: That is correct.

Mr. Chairman: Yes. And it was the last government.

Just a quick supplementary, Mr. Epp. Go ahead.

Mr. Epp: I would just like some clarification. How do you get on that list and why would that be?

Mr. Lawford: Frankly I think the procurement people in the Ontario Government think of contracts in the field of information systems is big business which can only be serviced by large multinationals or American companies. And they want to place their contracts in a way where they can get a single supplier who can handle everything.

Let us take that particular case in point. A substantial part of that contract, which I am sure was in excess of $1 million, was for data conversion, data capture, and that is where the jobs were, by and large women who type and proofread. These jobs all went to the

United States and there is no good reason why they could not have been in Canada. The government services clearly could have split that contract even if there was a need for insisting that you had to have U.S. software or U.S. hardware components, and I do not think there was. Certainly the contract could have been split into smaller units so Candian companies could have bid for at least the data capture portion of the activity which would have created local jobs.

I think one of the problems with government services in Ontario is that they tend to like big glossy American firms and there is very little in distributing jobs down into the smaller service industries in Ontario.

Mr. Chairman: Message received.

Mr. Barlow. Mr. Barlow comes from the home of the Catcam Centre (phonetic).

Mr. Barlow: I would like to start off with a supplementary to the last question, and that is that you say you had to force your way into the bidding on that. Were you at all successful or did you get your name on the bidding list? What was the outcome of that?

Mr. Lawford: The story is a long and complex one, but basically, if I might summarize the situation, we believe...

Mr. McFadden: What company are you from, by the way?

Mr. Lawford: QL Systems Limited of Kingston. It is a spin off of a research project of Queen's University called Quick Law. It now operates over 100 computer data bases. We are the largest offering in the computer data bases in Canada. We employ 40 people of whom about 35 are employed in Ontario in Kingston.

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In this particular case we believe we were low bidder, but due to a miscalculation of our bid by the Ministry of Government Services they concluded that CBC was low bidder and awarded the contract. We formally complained to the provincial officer and we have never had a response.

It was under the former government.

Mr. Fenaro: Figures.

Mr. Loewen: I can say that we have had a very similar experience in Manitoba. It is all pervasive through governments and large corporations.

Mr. McFadden: The NDP Government in Manitoba, my board.

Mr. Fenaro: Touche.

Mr. Loewen: The problem is not the politicians.

Mr. Barlow: I am sure it is not the politicians.

Mr. Chairman: Mr. Barlow.

Mr. Barlow: Okay, yes. I would just like to go my line of questioning along your association, the association Canadian Independent Computer Services. Who do you service? Do you service small and medium-sized busines?. Is this where your industry services primarily?

Mr. Turner: And large business.

Mr. Barlow: And large business.

Mr. Loewen: Yes. We are in the payroll business we serve over 3,000 companies. I hope I have not lost any clients today because some of them are the multinationals, right down to the very smallest.

Mr. Barlow: How many employees would the members of your association employ, just your 60 members that are employed in your association roughly? Do you have a figure?

Mr. Turner: A thousand would be a good guess.

Mr. Barlow: About 1,000.

And I notice, and this is most of the trade associations that have come before us, not that big is better or anything of that nature, but most of the trade associations that have come before us, a large percentage, at least 50% have been members--had their head office in Ontario. I notice there is only about a third of your membership in Ontario and I am sure that there must be many of your industry that operates in Ontario not members of your association.

Mr. Turner: Well, there is a reason for

that. The reason for that, I personally feel, we started the association in Winnipeg and in our pursuit for membership most of the potential members that we were pursuing are small businesses and these guys are running for their lives, and always have been, because it takes involvement of a kind that they have to commit to the association. Some of them just could not afford that time.

Mr. Barlow: They are quite small are they not, small, half a dozen people at the most in their operation.

Mr. Loewen: The average overall is about 10 to 15 employees. Now, among that there are some 300 to 400 to 500 employee firms. So, you know, a lot of them are two, three, five men offices.

Mr. Barlow: And I suppose a number of them that I can think of operate out of a division of a chartered accountants office, that sort of the thing.

Mr. Loewen: Sure.

Mr. Barlow: But what of the--I'm just thinking of Ontario. This really is off the free trade thing, but I just wanted to get some background of your association.

What do all the other--there must be hundreds of them in your business--do they belong to any other trade associations?

Mr. Loewen: Yes. There is another association caled CADAPSO and it is basically the senior association of the industry. We have dealt with particular issues in a rather, you might say, forceful manner, whereas the main association has not been able to do so because their membership tends to have conflict of interest in some of these issues. We started with the bank issue and the Bank Act and their membership, some of their members were dealing with banks and did not want to be as tough as we wanted to be and so we did our own thing and that seemed to be the right thing to do.

On the trade issue, again, a number of their members are multinationals and they have to make a decision whether they are going to try to represent the whole industry on some issues or cause shisms in their association.

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We do not have that problem. If an industry

member does not like the way we are handling the issue they will not belong. We will not likely have IBM as a member of our association.

Mr. Barlow: Do you have any regulation that IBM could not be a member of your association?

Mr. Loewen: Actually, in fact, we do.

Mr. Barlow: You must be what, 100% Canadian owned or...

Mr. Loewen: No, 50%. Over 50%.

Mr. Lawford: There are two reasons. I think one, CADAPSO does not have member companies, the smaller ones, partly the cost of membership is quite extravagant and secondly, some of the smaller companies perceive the association as dominated by the large multinationals.

Mr. Barlow: I see.

Thank you, Mr. Chairman.

Mr. Chairman: Mr. McFadden.

Mr. McFadden: Well gentlemen, I found your brief very thorough, a lot of good information here. One of the things that you have highlighted is something that I have raised a number of times on the committee since the start was the need to focus one service sector. I think the whole discussion of trade and opportunities, both import and export, is focused very strongly on manufacturing, plus the news media has really gotten into that end of it, and not without any reason. It is just the service sector seems to have gotten shuffled to the sidelines for some reason. And yet, two-thirds of the workforce, broadly speaking, work in which you could describe as service jobs.

I wanted to start off first of all with the past a bit here and the figures you have got. I did a lot of work with the Foreign Investment Review Agency right from the very beginning and I do not recall at any time, in any application that I ever dealt with for FIRA, through the whole 10 or 11 years that it was existence in its previous form anyway, an assessment officer asking one question about data processing or where any of this was going to be done. Questions were raised about sourcing raw materials, cleaning services, source of equipment, I could go through a list of things that the assessment asked about and go undertakings about and assisted on undertakings. I have never, ever run into an assessment officer, I am not aware of anybody who has

ever asked to give undertakings with regard to the use of data processing services, equipment or anything else.

What kind of relationship did you have with Industry, Trade and Commerce, as it was in those days, about trying to have that brought into the process? Because it never even entered any negotiations I am aware of.

Mr. Loewen: We have gone through an enormous effort to try to make them aware, both at the political level and the lower level and the, you know, the bureaucratic level. And I guess the multinationals have their ear and we have not, to this date, been able to get the ear of the federal government at any level, and that is not without an enormous effort. As a matter of fact, one of the recommendations of the Clyne Commission is to launch a national awareness campaign to explain the social, economic and cultural limitations of this new information society. That was never done and I have actually been thrown out of the department myself, and other members thrown out of the Department of Communications office who have made--serious, what we think are serious--have made all this possible. The 200,000 job loss was made possible by the Department of Communications people. And we just cannot get through to them what they are doing.

Well, actually they did not say get out. They took us through a security system. They got us in there, into their meeting room and eventually they said, well, we do not want to hear anything more of what you say and they walked out and left us to find our way through the--back out of the building. I do not know what the problem is there. There are people there that deal with this issue who do not have any understanding of what Canada is or what makes Canada work. They have no idea of why we have a railway. They have never taken a history lesson in Canada, I suspect, and they are the people that are making the decisions. We cannot get through.

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Mr. McFadden: You mentioned earlier your earlier concern that FIRA was somehow in the pockets or close to it of the multinationals. You were not seriously suggesting that?

Mr. Loewen: No. As a matter of fact, not really. You have reminded me--and, you know, we have our businesses to run and we do not do our job very well. And you reminded me that FIRA wanted information from us and I can remember that we never gave it to them. So we

are as guity as anybody. But, you know, we just do not have the resources to do everything that we should do.

Mr. Turner: It may also be the perception. You are questioning why they did not ask the questions about where is the data processing being done, etc. And I think a lot of people that are not in the industry perceive the data processing department to be a computer, no jobs hanging off it, and a computer that was originally from the States. So what does it matter whether it here or whether it is down there. We imported it to do it here. But really there is a bunch of high tech jobs in there, good paying jobs, and there is also a bunch of support jobs that go hand in hand with the physical location of that computer. So maybe because they are not aware of what all the ramifications are nobody thought to ask that and we certainly did not brief them.

Now, we tried to get through like Bill has said, through to the government and it is funny. When you bring up the crossborder data processing, they can hang all kinds of interesting things on it that makes it sound like you want a police stake. Like, the reaction is, do you want us to tune into these communication lines to find out what is moving back and forth. And they can really cloud the issue up. And they just leave it hanging like that and we say, well, it is pointless. We are not going to be a policy stake and monitor these things. But I do not think it has to go down like that.

There is ways of--I mean, the data line. When we order a data line the phone companies know exactly that it is a data line because we have to specify it as such. So when there is a linkage between a point in Brampton to their head office in wherever it is, the phone company knows that is there and why it is there. It is not for somebody in the office to talk to someone down there, it is to move data back and forth. So it is an easy thing to monitor and there could be incentives or disincentives attached to that. They did it with the advertising in the American magazines, things like that. You know, we do not have all the answers but it is, in our view, they are not really looking at what the question is let alone coming up with the answers.

Mr. Loewen: In some fairness to them I suppose, although they really do not have a good excuse for this, but the reaction, no matter what you say, and I have got letters in the last month that bear this out, no matter what you say to them that we are dealing with a broad problem that affects every office, or it affects office jobs and a whole range of jobs, the reaction always comes back well, your concern--the concerns of

your industry, or your industries concerns will be taken into account. They are thinking of us as an industry of 23,000 employees and that we want protection. That is not what we are trying to raise. We are trying to raise a broader issue that there is hundreds of thousands of jobs involved that never will touch our industry that we will lose and the very important skills that we will lose if we allow the management of our businesses to move out of the country. And that is what telecommunications allows you to do.

Mr. McFadden: Now, you are mentioning all these jobs, and just to reflect that I know in the kinds of negotiations that FIRA used to carry on that there was quite a bit of discussion whether you are going to have a full or part time warehouse person, whether you are going to have, you know, whether within the first year you would have 10 people work on lathes or nine. Tremendous detail went into those negotiations and how many were going to be hired in the undertakings. It is just peculiar that given your industries concerns and the matters you have raised it never came up. Anyway I do not want to belabour the point but it does not seem to have helped you one way or the other in this particular process that developed.

Mr. Loewen: Interestingly enough the Manitoba government, one of the persons working on policy there, was speaking the other day and said that they had studied free trade and basically they were saying, well, it is really not much of a problem for Manitoba. Only 12% of our labour force is in manufacturing and we could gain a bit or could lose a bit. And they are not looking a bit at that other 88% and that is where the big threat is and that is where the growth would be if we keep things here, keep the jobs here. And people, you know, the computer industry is hard and the communications industry is hard for us in the industry to keep on top of. And I can appreciate that many, many people do not understand and cannot grasp what is going on. But I tell you it is going on and it is going to cost us dearly if we do not do something about it.

Mr. Lawford: Mr. Chairman, if I could just add to that, I think it goes beyond jobs as well because there are many social or even political implications of where the information comes from. Let us take a field such as we started in at Queen's which is preparing data bases of law.

Essentially we have succeeded over the course of the years in building up a national Canadian legal information system. But what we find now is a major U.S. competitor now moving into the Canadian market and what

we will clearly going to find what we refer to as cream skimming the most heavily used collections of legal information being put up in parallel on U.S. computers in Dayton, Ohio and the impact on the viability of the Canadian system will be very material.

And it is not only in the fields such as law. When MacLean's Magazine operates its data base as it does on that computer in Dayton, Ohio, that means that the information is not provided from a computer in Canada and the jobs to create the data base for MacLean's Magazine are not Canadian jobs but are Dayton, Ohio jobs. And more important, the decision as to what information is available to Canadians is being made by some guy in Dayton, Ohio not by Canadians.

Mr. McFadden: You are using MacLean's. Are you saying that MacLean's literally does it or are you using them as an example?

Mr. Lawford: It is an example. There are many, many such cases, but the whole thing...

Mr. McFadden: Which is a Canadian owned company is in fact using this data base in Dayton, Ohio. Is that what you are telling us?

Mr. Lawford: What I am telling you is the Financial Post which MacLean Hunter publishes MacLeans, has chosen to licence the U.S. computer service to be the source of the text on computer of MacLean's Magazine.

Mr. McFadden: I see.

Mr. Lawford: And I think that you are going to find an enormous growth in that kind of activity. I think that there is now negotiation going on with major Canadian newspapers, major Canadian sources of information to have these data bases reside on large U.S. computers.

In the government area, for example, let us say for the sake of industry in Ontario a major source of information is patents. A basic question going on now is where should the patent data base reside. Should Canadians get their patent information solely from a U.S. patent information service or should there be a data base at Canadian Patents? I am prepared to wager that we will end up with a single patent data base residing on U.S. computers.

Mr. McFadden: I wonder if I could explore some other areas.

You mentioned the GM plant expansion in Oshawa, or at least the new plant. I was not quite sure, you seemed quite critical of GM's going ahead with that plant. Maybe I misread that.

Mr. Loewen: I would not say critical.

Mr. McFadden: What point were you making about that plant, per se?

Mr. Loewen: Just that we are getting the manufacturing jobs and we certainly--you know, if that is the way manufacturing is going to go, and obviously it is, it is just an example of how huge amounts of goods can be produced by very, very few people.

Supporting those few people that are pressing the buttons on the robots and whatnot, supporting those few people there is a huge management and technical and administrative body of people. And those people are located outside Canada. And that is why General Motors job figures look so bad.

Mr. Fenaro: Can I have a supplementary?

Mr. Chairman: Are you finished, Mr. McFadden?

Mr. McFadden: No, I am not, actually.

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Mr. Fenaro: Just a quick question. Is there not a distinction, sir, though, when you are talking about a corporation who in fact resides primarily in the United States, has Canadian operations and they have their one mammoth data base and the responsibility on the part of governments to look after certain things pertinent to its citizens, such as patents for example. Do you not have to make that distinction or are you suggesting that GM should have a mammoth computer data base in the States and one in Canada and one in Japan?

Mr. Loewen: If they work in Canada. The sovereignty of them, which sort of is the data base issue, is distinct from Canada. What I think that we should do in the case of the General Motors situation, not particularly because of that plant, but just because of what it represents in terms of where manufacturing is going. We should be sitting down with those people and saying, the only real club, if you want to call it that, or the only negotiating card that we have is that they are moving this data back and forth. And, quite frankly, the Americans are concerned and feel that they probably

will be restricted in doing that. It is my reading of the American situation. We should be saying, now, if you want to put all your administrative jobs in the States compensate us somehow. Put your research and development or put your design department in Canada. Canada cannot possibly maintain its level employment let alone its population, nor can it maintain its highly trained people in Canada.

If we are going to let all of these important jobs go to--you know, we have already got highly training people saying, if I want to be a computer expert I have to leave Canada. I can be a Canadian or I can be a computer expert, but I cannot be both. We are already starting to get into the brain drain syndrome all over again, you know, sort of solving it after the 1950s.

So if we are going to allow the multinationals and encourage foreign investment, I am afraid the foreign investment of the type that we are encouraging anyway is not going to create many jobs, such as the Hyundai plant is not creating any jobs. But if that is the route we are going to go it is not going to solve our problems, our employment problems. We have got to zero in on things that increase jobs in a large way. Now, you are not going to refuse things that create jobs of any kind, but building that General Motors plant is not going to solve our economic problems.

Mr. McFadden: It seems to me though, I think--I am not quite clear, though, what you are asking us to do or the Parliament of Canada or any of the legislatures. It would seem to me legitmate public policy to increase manufacturing jobs or to secure the ones we have got, whether it is in the automotive industry, the steel industry or any other industry. These people need work and anything the government can do presumably to enhance those industries and increase jobs we should be doing them.

Surely what you are talking about is add ons that we might be able to get and I am just worried that what you are running the risk of is putting yourself up against people who are trying to get manufacturing jobs and are running risks. And we want to encourage plants to locate here. Now, maybe by locating here or by expanding existing plants we do not create jobs in your industry but on the other hand I do not think it is...

Mr. Lawford: Maybe we are suggesting extending the autopac to beyond parts to software as well.

Mr. McFadden: Well, that is fine. I am

saying that that is okay. All I am saying is if I give you advice it is that you are running the risk of what you said this morning, you are asking us to...

Mr. Barlow: Watch it, he is a lawyer and he will charge you for it.

Mr. McFadden: You are asking us to say that we are not really going to welcome Hyundai because we are not really keen on their type of job, we want another type of job, and if they do not do it we do not want their manufacturing jobs here. I think from our point of view we want their manufacturing jobs. Now, if there are others ways that we can get them to do other services, that is tremendous.

And the one thing I would raise with you, and I think the point that you have made is quite important, you have raised, one of you said earlier the whole question of the effect of utilization capital in job creation. Big business is an inefficient user of capital, number one. And that has been proven many times.

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Secondly, there is no doubt about it that for the amount of money invested we create very few jobs for large enterprise. And all small business associations and everything, of course, have been talking about this for some while. Probably the best thing is for the government to encourage by various schemes from tax incentives to perhaps even certain encouragements for approaches by companies and so on to use Canadian sources.

But the thing that struck me about what you were commenting on is a good deal more attention has to be given to the small business sector and how it utilizes capital and to encourage that sector in a better way because, I mean, I think it is great all these big announcements of GM and what they are doing, 2,000 jobs. If you add up the number of jobs created by the small business community and your members, I mean, it is many times greater than in fact what is created by a $2 billion investment in one plant of GM that gets all the press.

Mr. Loewen: Our industry, I would guess almost for sure, created 2,000 jobs last year, at least.

Mr. McFadden: You did not get any big newspaper stories about it.

Mr. Loewen: No, sir.

Mr. McFadden: You do not call a press conference to talk about it.

Mr. Loewen: And we did not have to import $2 billion which has got to be repaid in some fashion or another.

Mr. McFadden: I want to just ask one other question. I could go on and on but obviously you do not have all day. One of the things that I would like to ask you about is the export of your services. I know some of the groups that come here to speak to us, the Institute of Management Consultants, Acres, I just commented on, and other groups have talked about the export services. They seem to feel there are markets in the United States and elsewhere that they could sell to and, in fact, a lot of these companies have substantial portions of their earnings generated outside of Canada.

Insofar as your members of your association are concerned, number one: do you export much in the way of your services to any other parts of the world and do you feel there are possibilities for that, either the United States or other parts of the world?

Mr. Lawford: Yes. We export software, the software developed at Queen's and refined in our company. There has been a licence to the largest U.S. law publishing company and a licence to the largest publisher of U.S. newspapers. That has resulted in substantial job creation in Canada. When we do programs for the United States that program becomes available for Canadian users of our services.

I guess our principal concern there is if we are going to have trade then we think the rules should be made a little more fair on the long tariff items as it were.

We find, for example, that it is absolutely impossible for us to sell anything to the U.S. government. And the U.S. government is a sufficiently large purchaser of this kind of services that they can sway the whole market. We have a situation, for example, where we successfully installed an information system for the use of the State of California Legislature, which the State of Oregon was interested in acquiring and using there. At the last minute, after our negotiations were near completion, the U.S. government moved in and made a substantial grant to the Oregon legislature for research, provided that it was U.S. software used on the Oregon legislative systems. Now this kind of support certainly

does not come to us from Canadian government sources. We are quite prepared to compete against American companies in software or in information services but if we are going to do that kind of thing, let us have a fair ball game.

Mr. McFadden: You are telling us that you are not on a level playing field. The Americans in fact have got major non-tariff barriers keeping you out.

Mr. Loewen: We have more than that. We have a situation where Bell Canada, for example in its new finance service, is basically offering much cheaper rates for the entry of U.S. data bases into the Canadian markets. There is no equivalent for Canadian data base suppliers reaching the U.S. market. What we have is a Canadian company busily importing as fast as it can, data bases in Canada. Bell boasts of having 3,000 data bases on the iner system system. Ask them how many of those data bases are U.S. data bases.

Mr. McFadden: If, in fact, in negotiation the non-tariff barriers the United States could be removed. I am not saying, you know, let us say theoretically this could happen. And I gather that what you are saying is the non-tariff barriers in Canada in this industry are very small, as far as the Americans are concerned. If in fact we could get them to remove their non-tariff barriers, would you be able to exploit that market and benefit from that?

Mr. Loewen: Canadians have tried and you know, there has been some measure of success but there has probably been a greater measure of failure. Through just the obvious situation that the American industry is more mature and better capitalised and has a customer base which gives them a better jumping ground to come into Canada than we would be likely to have. Looking at the total evolved situation we are likely ever to have with the United States.

We have a deficit now in virtually every area of computer industry and it is unlikely that we are ever going to make that up. Certainly if we could get better Canadian procurement that would give us a better jumping off ground than we have now. You know, the American market is a very tough market and we cannot build the Canadian economy in the United States. And if you think we can, I am sure you are going to be disappointed.

Mr. McFadden: But to start us we have built a lot of the Canadian economy on exports and what I am getting at is what you are telling us is that you have a got a terminal case here. You have painted your terminal

situation. What I am trying to find out is whether it would certainly be helpful to you. Now one of you nodded and one of you did not. Now the whole question, if we could get rid of the American non-tariff barriers to you, would that be helpful in terms of your ability to export and to develop Canadian markets? Now you are nodding, and I just want to get why you are nodding and you are not.

Mr. Lawford: I am saying I think we are all in agreement that there is no hope that the American non-tariff barrriers to prevent our cost competing in the U.S. market, but I suspect we also agree with the position that the Americans start from a very strong competitive position. It may be only important because of the non-tariff barriers such as sole source U.S. government procurement from them and refusing to let us compete while the Canadian market, in parallel, welcomes them as competitors with us in the North.

Mr. Turner: That is a non-tariff barrier that you will never get rid of.

Mr. Loewen: That should be evened up. There is no doubt about that. You should not be put into a disadvantageous position in your own market.

To go with your question, as far as I am concerned though, we are now talking about our own industry and our 23,000 employees which do not matter that much. We can stand up and look after ourselves. Data entry clerk at American Motors that we really wanted to talk to you about and the management people at American Motors moved down South and that is where the big loss has come from. 200,000 jobs now and they got rid of 500 fellows. That is what we really hope you will look at because that is the problem that we want to bring to your attention. We have lost them, we have lost those jobs to the Americans.

The Chair: Mr. Cordiano, Mr. Epp and Mr. McKenzie.

Something that strikes it to heart of what we have been saying for a number of months is that they have these large multi-nationals that are sluggish when it comes to export services and we have wondered why Canadians were not much more successful at export. That seems to be a central motive of being a branch plant economy. But what you really have to conclude is the fact that we have lost all these other second level jobs, third level jobs, apart from the manufacturing point of view that goes into, say, GM, etcetera. All these other level jobs. Now it is quite a fundamental issue that you

bring to this Committee today and it is unfortunate that we have had your representations on the last day that we are meeting before the next session because certainly it was quite important what you brought to us today. And it is something that we should have probably looked at some time ago.

Mr. Cordiano: Looking at something like the autopact and you have figures here for the funds on General Motors, Ford, Chrysler, etcetera and employees by $1 million of sales and the ratios for those. Is it then your conclusion say, for example, General Motors in the U.S. 6.7 is your ratio as compared to 2.7 for Canada. Now that is a big, big difference. Is it your conclusion then that most of those jobs are in the managerial, technical, clerical area?

Mr. Loewen: Yes. Very definitely. If you order you a car from a General Motors dealer in Winnipeg the dealer sits down to a terminal that is connected to Detroit and everything that happens from there happens in Detroit. The robot that welds the car here in Canada maybe, maybe not, but we do not get the administrative jobs.

Mr. Cordiano: This brings me to my second question. What happens down the road, say in the next decade, when something like flexible manufacturing systems contemplate a larger role where everything is automated to the extreme and there are very few manufacturing jobs left?

These plants become nothing more than assembly plants and we are trying to get more plants in this country. And yet not too far in the immediate future. I would say in the next ten or fifteen years. That could be a reality and all of these other jobs are going to be at headquarters in the United States.

Mr. Loewen: We have put it for a number of years, that we have become a nation of security guards and shipping clerks.

Mr. Cordiano: We have assembly plants now and we are asking for integrated manufacturing facilities in this province and that would become a thing of the past. That will become a thing of the past because of flexible manufacturing systems and essentially we are going down that road.

Mr. McKenzie: And as you were saying before we cannot avert, we cannot refuse to do that but in the process we must get those other jobs. We are not saying that we should not have that General Motors plant at all.

We are saying we should have the jobs that go with them.

Mr. Cordiano: Well, the autopact seems to be a little bit behind the times then.

Mr. McKenzie: That is right.

Mr. Cordiano: That is what your are telling us.

Mr. McKenzie: You have to recognize this new situation where these jobs can be, as the American analysts said, can be located anywhere

Mr. Cordiano: So we need add something to the autopact and should renegotiate it.

Mr. Lawford: In some of the newer ports in fact are computer features. If you bought a new car which tells you in a human voice to close the car door, that is being done by a computer somewhere in the car. And when you have had the car two or three years from now which displays a knob showing you your exact location in the world so you can determine were to turn off, that will be done by computer program. And one of the questions is how much of that kind of manufacturing is there going to be in Ontario? And the answer is very little.

Mr. Cordiano: My other question is with regard to this whole phenomenon of world product mandate. What do you see as any benefit being involved if say, for example, a Canadian subsidiary is designing the product and all of these other inputs in the secondary levels, quite apart from this manufacturing and assembly. We have design, research and development. Would that be something of a solution to that?

Mr. Turner: It would certainly help, but how much is there of that right today?

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Mr. Loewen: Actually, very little. There was a study done at Montreal University just two or three years ago that concluded that the world product mandate idea was not working at all, that it was not creating jobs in Canada, not creating exports. I have not read the study but that would be the place to go for information.

Mr. Cordiano: Certainly we should get that kind of information because that has been brought to our attention, you will recall IBM Canada was here, and there is other large multinationals that have claimed that we are going the route of the world product mandate and certainly there were more jobs created as a result.

Mr.Cordiano: Or at least offset the jobs that we are losing.

Mr. Chairman: Was it not the Advance Technology Association, Mr. Cordiano, that suggested that maybe the Americans are losing it too. That by the mid-1990's with control over computer chips, they are going to be able to control automobile production in the whole world to the Japanese.

Mr. Loewen: Where ever the cheapest labour is. When you look at what is happening in these auto plants and we are losing jobs that are becoming outdated, outmoded, phased-out. The future in jobs and incomes is in the communications industry and if we can, I hate to use the word, it is not supposed to be used anymore I guess, but if we can protect the Canadian industry, an information industry, long enough to get ourselves firmly established in Canada with a good solid customer base in Canada, you will not have to worry about exports. The export will look after itself. Those companies will be able to serve the whole world from Canada but if we do not create the infra-structure to start with, we will never get in.

Mr. Cordiano: Well I think you have added a very important element to this discussion because all of us are quite aware of information in society and what we have to do to gear up to that, but you are bringing it to the level of all of the secondary levels jobs that go into manufacturing and not just, you know, the high-tech area where you are producing computers, et cetera, manufacuturing computers. It is quite apart from that and even more significant.

Mr. Loewen: That is right, far more significant.

Mr. Cordiano: So that is the other element that you have focussed in on and it is something that we have not heard, at least I am not aware of it from the witnesses we have had before us.

Mr. Loewen: The one group that is so important in there is the management of those men. As Bernard LeMar said, you cannot export what you cannot do and we do not have the management people that can do

things because they are all located elsewhere. You cannot build an industrial base of any kind.

Mr. Barlow: You guys protect one another.

Mr. Chairman: Mr. Epp?

Mr. Epp: Thank you, Mr. Chairman. Well, gentlemen, I am sorry to be late earlier in the morning.

Mr. Chairman: I should indicate it is my fault because I did not inform Mr. Epp until this morning that it had been moved up.

Mr. Epp: Well, I also had another important meeting, Mr. Chairman, so anyway.

I am impressed by your brief and I am also not a permanent member of this Committee, I am just pitch hitting for someone else but I have a number of selfish interests involved in what your are talking about; first of all as a Canadian and as an Ontarian and secondly, as the member for Waterloo North which incorporates the silicon valley of Canada. I do not think anyone is really going to take issue with that. Well, there is only one member from Guelph here and no one from Ottawa.

But anyway, I think what we are talking about here is part of the question that was raised earlier and Mr. Lawford addressed that, and that is communications and I think the thing that people, maybe the politicians are not aware of what is happening. You mentioned your meeting in Ottawa with the communications people there. And I do not know how to address this problem whether it should be a conference or something of that nature, or you should get somebody. You know, you are a lot of independent people and you do not often have the resources to really go gangbusters across the country and sell the people on what you really want to do and the kind of jobs that we could protect in Canada and create in Canada if we protected our industry and the industry that you have there; the kind of service industry that you have. And so I think what you people should do, and I say this with all due respect, is address your minds as to how you are going to sell particularly the politicians. I think they are often more sensitive to these things than the bureaucrats. How you are going to inform the politicians, but also the bureaucrats on the problems out there. Problems as you have described in your brief here and enunciated so well this morning on getting Canadians to be cognisant of what they can do without appearing to be anti-American, but more pro-Canadian. That is the kind of thing I think you should address. Whether that is a series of conferences,

whether it is a series of seminars, whether it is meetings with small groups of politicans, I do not know, but I think that is something that you should undertake.

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Now in looking at the problem of resources, maybe governments will not give you money, but maybe universities would take up this project. Maybe the University of Waterloo or somebody else, institutions which get grants from governments. I am not sure whether the government would like to be seen to be giving money to an industry that is going to appear to be--appear I say--to be anti-American, or anti-anybody. It might be easier channelled through a university source, something like the University of Waterloo or somebody who then would sponsor a series of conferences or something on this. Because in the final analysis, they have a vested interest too.

Now the University of Waterloo, for instance, they have agreements with IBM, NCR and some of these institutions or companies, but I think that is where you should address your thoughts and some of your energies.

Mr. Loewen: Thank you, very much.

Mr. Chairman: Mr. McKenzie?

Mr. McKenzie: Just two questions. A comment first on the remarks Mr. Cordiano was making a few minutes ago about the fact that maybe we did not get a good enough deal in the autopact. I have no disagreement with him on that at all, but I would point out it is the only value added industry in the province where we do at least have a surplus. So if we did not get a good enough deal there, we have got a hell of a lot of other industries that we have done much worse in.

Mr. Cordiano: We may have, as you have pointed out, over the past, we do not have figures, that employment levels may have backed up even higher that time. Jobs have been displaced over time. So we are facing a new phenomenon here.

Mr. Loewen: It is a new technology that has changed the formula.

Mr. McKenzie: The other thing that I think probably will not surprise you gentlemen at all is to know that we have actually had witnesses before this Committee that have told us very clearly, and I think speaks to the misunderstanding, that the jobs really are not in the high tech fields or some of the fields that

you are covering and that probably is not understanding. I think it has helped me to drive home the management role, or the research role, or the databank role that is there in terms of employment with all of these companies.

But the two questions, specifically, in an effort to build the Canadian industry is, as you have said, or your ability to compete if you have to go toe to toe with the very advanced market industry, what in effect your are telling us in outlining some of the problems you had as well is that a policy of import replacement makes some cents.

Am I correct that in the field we may not have automatically thought of but--

Mr. Loewen: That is right. All of the research money and all of the government grants are not worth a nickel compared to one customer. A customer is the thing that makes a business and if it is a government or whoever the customer is, that is what gets a business going and that is what enables you to get strong enough to become an exporter.

Mr. McKenzie: Okay. The very interesting charts you have left us as well lead me to ask you if in fact you are also telling us that you have some sympathy with the idea of content legislation. Maybe more of an emphasis on the dollar value than we might think of almost conventially in terms of parts or what-have-you.

Mr. Chairman: But these are two more traditional arguments that are raised but also ones that seem to raise the ire of an awful lot of people. But I think you very clearly told us that almost the Japanese experience, we are going to have to develop and have the customers, as you say, in this industry if we are going to be able to compete and that makes some sense that we take a look at it, then, more completely.

Mr. Loewen: That is very true. The Japanese have built their businesses at home and then were able to go out and conquer the world and we could do that. The last country that I would like to compete with is the United States. There is a lot of other countries around the world that would be much better markets in my view than the United States.

Mr. Lawford: Could I add another comment on this. Another factor that enters into it is not merely government procurement, but government competition. And one of the problems which we face I suspect, as an industry, is the government tends to want to do everything in house. And when it does everything in

house, it tends to buy off the shelf products from U.S. suppliers so that if you are going to do data processing in the Government of Ontario, we are quite prepared to have you weigh our products against an IBM product, but we would like you to at least weigh our product and to consider the possibility of having the data processing done on a service bureau in Ontario, rather than on a government computer in Ontario.

Mr. McKenzie: I have to wonder about the problems we may have already had in terms of that access to data that is not held in this country and I have to think that we were mentioning briefly world product mandating. That was a minor argument, a lobby arguments when there was a pile of money being poured into a plant in my town, Firestone, and the new equipment and machinery in that particular plant.

The irony of it, and most of us were not smart enough to realise it until a little later, was that the world product mandating was all the non-steel belted radials in a certain field and then when they ran into a real crunch, we also found out that they had hedged their bets even though it was supposed to have been a world product mandated operation and they still have maintained the capacity in one of their American plants and were able to clobber the workers recently very, very effectively in terms of any demands. So what was a world product mandating advance when they were after \$15 or \$16 million bucks, just two or three years back turned out to be a bit of a disaster. And how much of that might have been in the knowledge and software and data if we had control of it a little more effectively up here does leave me to wonder.

Mr. Chairman: Mr. McFadden?

Mr. McFadden: You made a point and I was trying to determine what you were talking about--export market--you said that you would prefer competing in other markets of the United States. In what sense would prefer and could define those countries you think are particularly susceptible to Canadian exports.

You raised the point about, you said you could think of other export markets that you would prefer to compete in other than the United States. I wonder if you could tell me what other countries you are speaking about and for what products?

Mr. Loewen: Well, as a business person I would not attack the toughest market, the most advanced market no matter how big it was. You go to the area that does not have your service or your product well supplied rather than the area that is already well supplied. And

certainly that are products that we can develop in Canada that are already supplied in the United States and that is great, but with communications as they are today and they way you deliver communications, deliver services, our best markets would be more likely to be third world countries for starters. Secondly, I think we are much more on a par technology-wise with Europe than we are with the United States. So I would find Europe to be a very attractive area to look at.

Mr.McFadden: Are members of your association actively pursuing markets in Europe, and/or the developing world? Is that a current strategy amid members of your association?

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Mr. Lawford: Certainly in our experience it is not just the Americans who have restrictions. We find, for example, that we want to operate data bases of English law because obviously the English law is of considerable relevance to people in Canada. But we find that there are restrictions which prevent us from attaining access with respect to the original decisions to operate in our service in Canada.

But in parallel with this we find the Canadian Government in its recent report on copyright saying that access to Canadian organizations, Canadian laws and Canadian regualtions is to be opened to the world. So we are going to be in a position where a British company or an American company can get exclusivity on English law plus all the Canadian material and the Canadian competitor can only get access to the Canadian material.

And if we are going to let Americans and British use our material, then I think we should insist in our trade negotiations that they make available to us similar access to their materials.

Mr. McKenzie: The English have put a copyright on the law?

Mr. Lawford: There is copyright on the law in all of the English Commonwealth countries except the United States. The United States law is regarded in the public domain. But in Canada, England, Australia, it is Crown copyright at present and the Canadian proposal is that Crown copyright and legal materials be abolished and anyone who wants be able to create data bases of the texts of law.

Mr. McKenzie: That is perfectly good and

well but if we are going to let foreigners operate data bases of our legal materials, surely, reciprocally, we should be able to offer a data base of their materials. Otherwise, what we are really saying is that we are going to surrender our whole legal information to operational foreign computers because only they can get a complete correctional base.

Mr. Lawford: It makes sense. You are quite right.

Mr. Cordiano: One final brief question. Your recommendation here on page 8 suggests that we have to do is limit or restrict the kind of information polls and that would somehow overthrive, might regain some of the jobs that we have lost.

Mr.Loewen: They expect it. Brazil has already done it. Sweden did it to the Greeks. France has done it. Germany has done it.

Mr. Chairman: Would we be doing this to Toyota?

Mr. Loewen: Yes. I think rightly you should. It certainly should be time. You would have to see the total picture to know where you end up but it is certainly a question to raise.

Mr.Cordiano: Well, the precedent is already there. I mean other countries in the world should definitely have a business like that and, sure, it seems like its not the terrible force that it was.

Mr. Lawford: Surely it is not unreasonable for us to insist that Canadian information be processed on Canadian computers.

Mr. Cordiano: So it is a precedent, like FIRA?

Mr. Loewen: Well the Americans would have us believe approximately, that it was a slur and of the greatest impediment to their opportunity to invest in this country.

It is kind of an extreme example. A scary example, and I've been told by somebody that should know what he is talking about, and that for servicing of computers--mainframe computers mainly, I guess--IBM has a plan to have a serviceman or representative when the computer goes down, go to the computer, plug an antenna into the back of the computer, stick the antenna out the window and the memory or whatever else the computer

contains at that point will be transmitted to a satellite, the problem will be analysed at a centre in the States and a response will be sent back. You know, fix this or fix that.

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Mr. Lawford: That is not merely planned, that is what is happening now.

Mr. Loewen: So we will be in a position where we cannot fix our own computers.

Mr. Barlow: Should we negotiate free trade with the U.S.?

Mr. Chairman: You, why are you here!

Mr. Loewen: There are far better alternatives that should be being looked at.

Mr. Chairman: Gentlemen, it is obvious that you have captured the imagination of this Committee and we really appreciate your coming here. I know it was difficult for you all to get here, coming all the way from Winnipeg in your case, sir. It is obvious that we have paid close attention and it will figure in our deliberations. So we appreciate your coming.

I should tell the Committee now that we have had the hearing that, going back twenty years, I was in law school I took a traditional course in administrative law, learned about certiorari, prohibitions and mandamus and then in final year I got to take a course form Professor Lawford and the realities of administrative law which is basically not what you know, but who you know and learned about legislative committees of that nature. It surprises me, sir, that you were not able to get on the tender list with all that knowledge that you imparted to us in those days. Not only that, but then in the course of my practice when I was dealing as so many small practitioners are with musty old books, certiorari's and so on, it was Professor Lawford that made it available to the legal community of this province some years ago now the access to computerized law which was something that I suppose being a musty profession, lawyers tended to resist. But he has been a real pioneer in that area and I appreciate your coming and letting us know some of the problems that you have. And, it is good to see you again.

Thank you.

Mr. McFadden: It seems to me that Christ was

crucified and his lessons were still to be learned and followed for centuries, so I am sure Professor Lawford lessons on that area remain as valid today as ever, even though he was not successful in one or two areas.

Mr. Cordiano: Thank you very much.

Mr.Chairman: Before we adjourn, Mr. Traficante wants to discuss the memo that has been prepared for you from Patrick Melvin. Thank you.

Mr. Taficante: Gentlemen, the issue has arisen over the past week or so as to exactly what the procedure is with regard to the Senate Financial Committee in the United States and how they deal with the question of not disallowing the bilateral negotiations to continue. We tried to explore that a little bit with contacts in Washington and otherwise. The question is still pretty much up in the air as you probably gathered from the Deputy Minister of Inter-Governmental Affairs statements.

I tried to provide a little bit of information on some of the procedures with regard to the fast check, those people were not in Washington and who are not aware of them.

There is two additional comments which we have learned this morning and are not in the actual memo. One thing you might be aware of is that the trade and tariff law which provides the administration with the rights to engage in trade negotiations with other countries, expires on January 3, 1988 and the interesting point about that is that the bi-lateral negotiations, if they in fact take place, have to occur and be completed by that date. That is, any kinds of negotiations which are in process could subsequent to January 3rd be amended by the Senate or the Congress. Even if an agreement is made and even if the agreement is presented in terms of legislation for the Congress to deal with, if that legislation has not been completed by January 3, 1988, the Senate and Congress can introduce amendments. In other words, the whole point of the fast track which is to provide a basis upon which the agreement made by those two countries would not be amended subsequent to the actual agreement being decided upon so that the Senate and Congress would have simply a nay or yay position.

If that is still in process on January 3, 1988, they could begin to introduce amendments. The quesiton then arises as to what happens in terms of whether this Trade and Tariff Act would be extended beyond that. Most likely it would be, but then whatever agreement would be arrived at by Canada and the United

States would enter into or become part of the politics of the extension of that agreement. And that clearly is a contentious issue right now anyway with the Senate arguing that they have given too many powers to the President in that regard.

A second question that arose, and that is, what would happen if and when the Senate Finance Committee votes against our lateral negotiations. Would it then be possible for the administration to go directly to the Senate to by-pass the Finance Committee and get the Senate's approval to undertake negotiations. That is a completely grey area, there is no precedent in the area as far as I can understand. I understand that in terms of other Committee decisions on other matters that is possible. However, with regard to the Trade and Tariff Act itself under which this procedure exists, that is unknown. The Act only provides that the Senate Finance Committee and the House Ways and Means Committee not disallow. Not the Senate as a whole not disallow. That as a procedural matter would have to be settled by the President of the Senate. So, in other words, because it is such a contentious and gray area, it is unlikely that if the Senate and Finance Committee disapproved, that they would begin to or go directly to the Senate. It is such an unknown and contentious area, a grey area, that it is unlikely to occur at all.

Mr. Chairman: Who is the speaker in the Senate?

Mr. Traficante: The President of the Senate, and that is the Vice-President of the United States.

Mr. Chairman: Vice-President Bush. It has been suggested to me by a fairly high ranking bureaucrat that there would be a hiatus before the administration could notify the Congress again. And he thought it was a year. And then I saw a story in the Globe and Mail suggesting it was six months. This memo suggests that that does not exist.

Mr. Traficante: To my knowledge and the information that we have been able to obtain, there is no time limit set in legislation or in precedent. It would be more a question in terms of the politics of the situation. That is, I cannot remember which of the people we spoke to in Washington, but I believe it was one of the staff of one of the Committees, who said that if the administration wants to get around a Committee veto situation, the Senate as a whole or the members would not appreciate having the issue brought to their attention again without substantial revision. Just as, I guess, a point of their own privilege. If the

administration tried to get around them, they would regard it as a breach of their privilege that would be occuring with respect to veto.

Mr. McFadden: A difference of opinion on the bureaucrat and...

Mr. Chairman: That was just something he thought.

Mr. Traficante: The information here, by the way, comes from the Canadian Embassy, that is Jacques St.-Jacques who escorted us around in Washington when we were there.

Mr. McFadden: This is based on communications with him.

Mr. Traficante: That is right. And especially the information that I provided to you that was not in this, that was in speaking with him this morning.

Mr. McFadden: Strange there is an act there somebody could read the terms and come up with a conclusion--very obscure. This sort of difficulty was not perceived in drawing up the legislation.

Mr. Chairman: I had the impression in Washington that the only person we met in all of Washington that understood this Act was Murton. But he sure did not know what was going on in the Senate.

Mr. MacKenzie: But he knows what the Act...

Mr. Chairman: Meeting adjourned.

The meeting adjourned at 12:24 p.m.